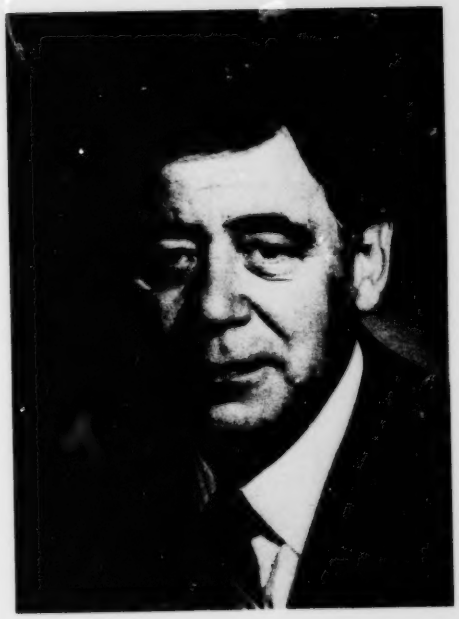
Province of
British Columbia

BUDGET 1987



Delivered
in the Legislative Assembly
Thursday, March 19, 1987
by the
Honourable Mel Couvelier

Minister of Finance
and Corporate Relations

M.L.A. Saanich and the Islands

"If British Columbia is to achieve its full potential, we cannot rely on past solutions to tide us over until normal times return."

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TABLE OF CONTENTS

	Page
Budget Speech 1987	1
Introduction	1
Economic Challenges	2
International Trade	4
Fiscal Plan	5
Fiscal Outlook	6
Expenditure Priorities	9
Financial Institutions Developments	18
Federal-Provincial Relations	19
Revenue Measures	20
Conclusion	29
Budget Tables	33
Appendices	51

BUDGET SPEECH 1987

INTRODUCTION

Mr. Speaker, I am pleased to present to the House the first budget of this new Social Credit administration.

My budget sets the priorities of our government and takes a major step towards meeting them. It represents a fresh start.

Just five months ago British Columbians gave us a clear and strong mandate to change the way government operates — to change its priorities and to change the decision-making process.

We have already begun to fulfill this mandate and we will do more in the weeks and months ahead as we present our budgetary and legislative programs.

Economic policies, in particular, will be tailored to the realities of the late twentieth century. Fresh approaches are needed to satisfy the hopes and aspirations of British Columbians and to build an economy that will provide jobs and incomes for future generations.

Endorsement of a Social Credit government for the eleventh time in the last twelve elections shows that British Columbians still believe individual enterprise and a strong private sector are the keys to growth and progress for our society.

Our challenge is to make our system work better, to provide benefits British Columbians want and need, and to ensure we continue to enjoy one of the highest standards of living in the world.

Economic and Fiscal Principles

In introducing my first budget, let me state the principles which guide our economic and fiscal policies.

- We believe in open and fair government which is responsive to the rights and requirements of the individuals in our society and which is not subject to domination by special interest groups.
- We believe government's role is to create a healthy climate for growth and development, leaving business decisions to the private sector.
- We believe in encouraging development that is responsive to the long-term needs and welfare of the community at large, at both the local and provincial level.
- We believe the taxpayers' money should be used carefully; that government should be affordable and that our goal must be to reduce and eliminate the deficit so today's bills will not be left for tomorrow's generation.

- We believe in providing help and opportunities so that the disadvantaged in our society can become full participants in our development.
- We believe we must invest in our best resource — our people — because they are our most valuable asset.
- And finally, we believe that the provision of services in our society must relate to our ability to fund them and that users must bear a degree of responsibility in paying for the services that are provided.

These principles — and they are not empty rhetoric — guided us in our decision-making.

The decisions and plans I will outline today follow this basic philosophical direction.

ECONOMIC CHALLENGES

If British Columbia is to achieve its full potential, we cannot rely on past solutions to tide us over until normal times return.

We must have the intellectual honesty to deal directly and confidently with three major challenges. We must change labour-management attitudes, we must diversify our economy and we must enter the Pacific Rim community as full partners.

Together we must create a future that is built on fairness, on the strength of our communities and on the advantages of our geographic location.

Let me give details.

Labour Relations

One message frequently heard by government and business leaders from potential investors and trade partners is their reluctance to make British Columbia a home for their capital because of our reputation for labour conflict. This reputation must be changed.

The negative image was reinforced last year by the four and one-half month forest industry dispute.

This dispute was costly, not only to our reputation, but also in terms of lost production, profits and wages. The losses cannot be made up. They will continue to affect our economy in 1987 through lower retail spending and capital investment. As a result, most of the loss in provincial revenues will be borne in 1987.

The government clearly must take action.

To meet this challenge, my colleague, the Minister of Labour and Consumer Services, has held hearings around the province and received more than 700 submissions on proposals to change the Labour Code.

As a result, initiatives will be introduced within a few weeks to improve our labour relations climate and the long-term outlook for employment and investment in British Columbia.

There is no issue more crucial to our economic recovery than the restoration of equity to our labour scene — equity for workers, equity for owners and most important — equity for all British Columbians.

Industrial Diversification

The second challenge is to broaden and strengthen the province's industrial base, particularly in non-metropolitan areas.

Forestry, mining and fishing built this province and gave us a high standard of living. With proper management, these industries will continue to be major sources of jobs and incomes for our citizens.

But that base is too narrow.

Markets for resource products are volatile and communities that depend on these markets are exposed to instabilities that are economically and socially disruptive.

As a provincial government, we are powerless to affect global commodity prices. We trade our resources in a world market. To do so successfully, we must compete not only on ability and service, but also on price.

If we are to wean ourselves from this excessive dependency on factors beyond our control, it must be through a conscious, deliberate and disciplined program of diversification.

To some degree this is already happening. Tourism has grown steadily in recent years to add a new dimension to the economic base of many communities. High technology firms and knowledge-based industries, though small, are growing rapidly. These are welcome developments, but we need more.

We need new industries that can not only compete in export markets but also can produce goods and services we now buy abroad that will support other British Columbia industries.

This cannot be accomplished by government fiat and should not be done by subverting market forces. It can and should be done by identifying and breaking down institutional barriers, by improving information available on market opportunities and by providing ways for people to turn good ideas into successful businesses.

The solution is not more money, more subsidies, or more tax concessions. We need to provide fertile soil for entrepreneurial investment and we need economic policies that balance small-scale, home-grown investment with larger-scale projects.

Pacific Rim Connections

Our third challenge is to reach out to our neighbours around the Pacific and take advantage of the vast opportunities in that region. In the past twenty years, our fastest growing markets have been in Asia. Currently, our exports to the Pacific Rim are worth three times as much as our exports to Europe.

Our success in Pacific Rim trade is important and gratifying, but we have much more to do. In the coming years we must sell new products in competition with new and tough producers. To succeed we must know our trade partners better, and we must ensure that they know us. We must make a commitment.

Our first response will be through our education system, with greater emphasis on understanding Asian laws, languages and cultures, and through trade and tourism promotion efforts.

We will take advantage of our location to be Canada's gateway to the Pacific and Asia's gateway to Canada. By opening the door wide, our province and our country will both benefit.

My colleague, the Minister of Economic Development, has signed an agreement with Ottawa to develop Vancouver as a Pacific Centre for Trade, Commerce and Travel. Under this agreement we will improve marketing of the port and airport, expand international financial and commercial activities and develop a network of tourist destinations around the province. We will also use strategically located public lands to attract new economic activity.

British Columbia has many competitive strengths — our skilled labour force, our rich endowment of resources, our network of social programs and facilities, and our political stability.

If we can marshall these strengths and meet the major challenges — labour-management co-operation, industrial diversification, and expanded Pacific Rim connections — the possibilities are virtually limitless.

INTERNATIONAL TRADE

We rely heavily on international trade for our economic well-being and disruptions in its traditional patterns and rhythm are of major concern. This applies particularly when our own products are affected, but we also have a vested interest in the general health of the global trading system.

British Columbia and Canada must, in simple self-interest, seek out and solidify trading relationships if we are to attain long-term security.

With co-operation we can provide that security as shown by the success of the European Economic Community (EEC).

The countries within the EEC have developed a strong and efficient alliance that allows its member nations to trade within the bounds of a virtually self-contained unit with, ironically, a diminished reliance on goods from Canada and the United States.

We can learn a lesson from that experience — by first developing a similar free trading arrangement with the United States and by later seeking a joint expansion into Central America.

The rewards and benefits to British Columbia and Canada from a comprehensive trade agreement with the United States — guaranteed access to a market of 265 million people — are obvious and immense.

About 80 per cent of Canada's merchandise exports are sold in the U.S., making continued access to this market a matter of crucial importance to the nation's economy.

An agreement would also bring mutually-acceptable remedies and mechanisms to avert trade disputes like the recent ones involving softwood lumber and shakes and shingles.

Our Province, therefore, strongly supports and endorses the Federal government's initiative to negotiate a bilateral trade agreement with our American neighbours.

In addition, British Columbia will also press for a strong Canadian presence in the new round of multilateral trade negotiations under the General Agreement on Trade and Tariffs because these negotiations are at least of equal importance to our Province.

FISCAL PLAN

Our government made its fiscal policy clear in the 1986 election campaign. We promised fiscal responsibility, a lower deficit, careful spending of the taxpayers' money, and more local responsibility. That is what we will deliver.

In developing a fiscal plan for the coming year, the government faced several significant factors.

- First, we inherited a persistent structural deficit of about $1 billion. Without new revenues and cost controls, this deficit will grow out of control and threaten our ability to pay for essential programs.
- Second, more moderate economic growth in 1987, following the positive impact of Expo 86 on last year's activity, will limit the increase in government revenue for 1987/88.

- Third, we have identified several priority program areas where additional funding is needed to meet key social or economic objectives.

- And fourth, on the plus side, the lumber export tax imposed by Ottawa to settle the countervail duty dispute with the United States will generate some of the additional revenue required to meet these concerns.

The easy path for this budget would have been to let the deficit increase by a few hundred million dollars and wait for the tooth fairy to arrive. Easy, but irresponsible.

This Social Credit government is determined to balance the budget and, further, to reduce the outstanding debt within the next several years.

That commitment is firm and while external events may affect, one way or the other, the time frame, there will be a continuing reduction in the deficit each year until we reach our goal.

We have carefully examined our revenue sources, especially taxation revenues. As a result we are convinced that restructuring some of our major taxes will not only generate additional revenue but also improve fairness.

A comprehensive review of government programs has revealed areas where less should be spent and areas where additional funding will advance our economic and social objectives. We have been able to strike a balance that meets our top priorities while keeping our deficit reduction plan on track.

FISCAL OUTLOOK

Before outlining the specific fiscal targets for 1987/88, let me briefly review the year just ending.

The budget presented one year ago by the previous administration projected a deficit of $875 million. The final figure is expected to be $1.171 billion, which is $296 million more than originally forecast and significantly above the previous peak deficit of $1.012 billion recorded in 1983/84.

At the same time, we should recognize repayment of the Expo debt accounts for $171 million of the 1986/87 deficit, leaving a deficit of $1 billion related to ongoing programs.

The main reasons for the unexpected increase in this year's deficit are shortfalls in income tax, social service tax and oil and gas revenues. Personal and corporate income taxes are $254 million below budget partly because of lower-than-estimated collections for 1985 which, under our Tax Collection Agreement with the federal government, didn't affect our revenue until 1986/87.

The corporate income tax shortfall is the larger of the two, reflecting poor profits earned by British Columbia corporations over the past few years. For 1986 we expect a rebound, but that will not improve our revenues until March, 1988.

The fall in oil prices last spring was greater than expected — good news for drivers, but not for the treasury. Fuel taxes, oil and gas royalties and the sale of drilling rights all fell, for a total shortfall of $124 million.

Social service tax revenue is also below budget by $43 million, as retail sales and capital investment have failed to match expectations.

The forest industry shutdown contributed to the revenue shortfall in the second half of the year and the drain on the provincial treasury will linger for some time.

Expenditures are much closer to budget and, indeed, spending on ongoing programs in 1986/87 will be slightly below the original budget estimate. There has been a major overrun for health, caused by retroactive wage and fee settlements, for which no provision had been made in the previous government's budget. This has been offset by lower spending for interest, highway construction, forest fire suppression and some programs of the Economic Development ministry.

Revenue for 1987/88

For 1987/88, there are a variety of influences on the revenue picture. The business tax reform measures introduced in 1985 and 1986 will have a negative impact in 1987/88 of about $145 million, of which $100 million will be recorded as a reduction in revenue and $45 million as an increase in expenditure to compensate school districts for foregone property tax revenue.

The forest and mining industries have been major beneficiaries of this tax reduction program, which has contributed to their recently improved financial positions.

Furthermore, we cannot be confident of growth in taxation and natural resource revenue next year, due to unpredictable economic vitality, fallout from the forest shutdown, and continuing uncertainty in mineral and energy markets.

Not counting revenue from the lumber export tax and the revenue measures that I shall announce today, our revenue for 1987/88 is estimated at $8.84 billion. The new revenue measures will add an additional $183 million and the lumber export tax $350 million for a total of $9.37 billion, an increase of 9.2 per cent over the revised forecast for 1986/87.

Lumber Export Tax

The negotiated settlement of the softwood lumber dispute, arrived at because of strong representations by our province, ended uncertainty for British Columbia producers, limited the damage and most important, ensured the proceeds of the Canadian-imposed tax would stay in Canada.

The revenue we will receive from this tax will not only allow us to support a silviculture program that is the biggest in our province's history and the largest anywhere in North America, but also to increase funding for health, education, assistance to the disadvantaged and expanded forestry research.

Expenditure 1987/88

Spending growth next year will be close to the rate of growth in our economy. The increase is needed to fund public sector wage settlements and program priorities just mentioned.

Some offsetting savings will be obtained through lower highway capital spending, as we near the completion of the Coquihalla Highway and Alex Fraser Bridge projects.

Total expenditure for 1987/88 is estimated at $10.22 billion, an increase of 4.8 per cent over the revised forecast for 1986/87.

Projected Deficit

The end result is that the 1987/88 deficit is forecast to be $850 million — $321 million below our forecast for 1986/87.

The fact that we have been able to reduce the deficit is due to our government's commitment and willingness to make tough decisions in order to move towards a balanced budget.

Fiscal Plan

	Revised Forecast 1986/87	Budget 1987/88
	$ millions	
Revenue	8,578	9,370
Expenditure	9,749	10,220
Deficit	1,171	850

Borrowing

To meet the coming year's deficit and related financial transactions we will need to borrow an estimated $825 million, increasing our direct government debt to almost $5.2 billion. The burden of this growing debt on our budget and our economy is substantial. Interest costs will be $181 for every man, woman and child in the province, or $530 million in total. This amount exceeds the budgets of all but the five largest ministries.

The picture is much better for indirect debt. We plan to borrow $1.05 billion for Crown corporations and agencies next year, but this will be almost fully offset by repayments and sinking fund contributions of $.95 billion.

EXPENDITURE PRIORITIES

Our expenditure plan for this first budget addresses our major priorities, which are:

- Providing greater assistance for the disadvantaged in our society.
- Maintaining the high standards of our health care programs.
- Improving the management of our natural resources.
- Making business more self-reliant.
- Increasing emphasis on local government partnership.
- And, investing in our people and our economy for the future.

I now wish to explain these initiatives in greater detail.

Assistance for the Disadvantaged

The past few years have been difficult for families dependent on government for support. We intend to provide help through higher income assistance rates and a major increase in training and job programs for income assistance recipients.

Basic support allowance rates under GAIN have not increased for five years. On the recommendation of the Minister of Social Services and Housing, we will increase the support allowance for families by 5 per cent, effective June 1, 1987, with a further increase of 5 per cent on December 1, 1987.

The maximum shelter allowance under GAIN was raised by 4.7 per cent last October and will be raised further on December 1, 1987, by an average 6 per cent.

These increased benefit levels are expected to cost $51.7 million. However, the cost will be partly offset by a reduction in case loads due to new employment initiatives to be undertaken by the government.

For the coming year we plan to spend $54.6 million to provide more job opportunities for employable GAIN recipients, an increase of $34.1 million.

The Forestry JobTrac Program has provided job training and work experience for more than 1,500 income assistance recipients this year, while helping to meet our silviculture targets.

Accordingly, funding for this successful program will be increased from $13 million to $17 million. The program will also be expanded in scope to include $2 million for special park and habitat conservation work and $20 million for worthwhile community development projects.

An estimated 5,000 people will be given training and employment through this program next year. Job preparation and other work experience programs will increase by $8.1 million.

Last year we introduced an increased earnings exemption to encourage people on income assistance to look for employment. This coming year, we are increasing funding for day care assistance by 30 per cent to $26.7 million, to make it easier for single parents to return to the workforce.

New therapies and changing public attitudes have helped disabled members of our community to lead more productive lives. But we need to do more.

Funding for services for the disabled in the Ministry of Social Services and Housing is being increased to $147.7 million — a 15 per cent increase.

This increase in funding of $19.7 million will be used to help parents care for disabled infants, to integrate disabled children into regular day care centres and schools and to provide training, vocational support and community placements for disabled adults.

In recognition of the importance we place on the family in our society, funding for programs providing care for children and the preservation of the family unit will be increased by 9.6 per cent to $88.8 million.

This additional $7.8 million is for foster care, specialized care for children, help for families with children with behavioural problems and encouragement for adoption of children with special needs.

All of these family support services will play a role in helping reduce our province's high abortion rate.

In addition, $2 million in funding will be provided specifically to encourage alternatives to abortion.

Funding for legal aid will be increased by $5 million for a total of $19 million to ensure adequate legal services for those on low incomes.

Maintaining Health Care Programs

Our health care system, recognized as one of the best in the world, has for two decades been steadily improved and expanded. However, attempts to control the costs of the health care system have been less successful.

We face relentless cost pressures. The aging of our population, demands to acquire the latest and best technology, expectations of ever higher service levels, and the growing income expectations of those working in the health care field all contribute to the upward spiral of costs.

It is this government's view that responsible use of the health care system can be encouraged by modest user charges, with provisions to protect or exempt those on low incomes.

The federal government does not agree. In July 1984, Ottawa began deducting, from British Columbia's Established Programs Financing (EPF) entitlements, penalties equal to the revenue obtained by our hospitals from minor user fees.

Reluctantly, we have announced our decision to end the practice of charging user fees in our hospitals before April 1, 1987. This is necessary in order to recover the withheld EPF contributions, amounting to $85 million.

I have asked my federal counterpart and my provincial colleagues, together with the federal and provincial health ministers, to identify other ways in which we may collectively take action to control health care costs in Canada.

The issue is critical — unless attitudes change, growing health care costs will gradually eliminate our ability to finance other government services.

Funding for the Ministry of Health will increase by $237 million next year, or 8.1 per cent, over the current year's budget. The recent wage and benefit settlements for health care employees have added $102 million to our costs in the current year and will take a significant portion of next year's budgeted increase.

The costs of the Medical Services Plan are rising rapidly, driven by a fee schedule for physicians in British Columbia that is significantly above the national average and utilization increases well above the rate of increase in our population.

All options for containing health costs involve difficult decisions, but the government has decided on the following actions.

As previously announced, medical services premiums will increase April 1, 1987, by approximately 10 per cent. Premium assistance will be increased to fully offset the rise in premiums for those on low incomes, providing benefits to an estimated 530,000 people in the province.

Our Medical Services Plan provides extensive supplementary benefits, such as physiotherapy and chiropractic services. These benefits will be maintained, but a small utilization fee of $5 per visit will be introduced in July 1987 to offset a portion of the cost.

British Columbia's doctors, as key players in the delivery of health care, recognize the difficult problem of maintaining a high level of service in the face of soaring costs.

As senior partners in the health care system, physicians in our province enjoy fees which are substantially higher than those in the rest of Canada.

I am confident that, because of their shared concern, our doctors will co-operate with the government and play a full part in helping reduce costs so we can continue to maintain the best possible level of services for people.

Under the most recent contract with the physicians, the government can re-negotiate fees and payments if this year's increase in utilization exceeds three per cent on a per capita basis.

Utilization has risen well beyond this level and the government will therefore exercise its option to begin negotiations with the medical profession to bring doctors' fee levels into line with those in other Canadian provinces.

Our Pharmacare program is one of the most generous in Canada, and the costs have increased at an average annual rate of 20 per cent over the past six years. To control this excessive rate of increase, two measures will be taken.

Under the universal portion of the program, provincial residents may be reimbursed for 80 per cent of prescription drug costs in excess of $200. Effective April 1, 1987, the deductible limit will be raised from $200 to $275, providing annual savings of $15.4 million.

Currently, senior citizens are not required to pay any drug costs whatsoever under Pharmacare. Effective April 1, 1987, seniors will be required to make a co-payment, equal to 75 per cent of the dispensing fee or an average of just under $5 to an annual maximum of $125. This measure will produce annual savings of $22 million. To protect those on low incomes, extra assistance will be provided through an increase of $125 per year in the GAIN for seniors' supplement, so that they will be fully compensated for increased Pharmacare costs. Indeed, most recipients of GAIN for seniors will be better off as a result of these changes.

Improving Natural Resource Management

We are taking a number of steps to improve natural resource management.

The importance of forest renewal and protection to the future of our largest industry is well recognized.

For some time the government has expanded silviculture activity as rapidly as facilities and funding have permitted. In the coming year, expenditure on silviculture will increase by almost 28 per cent, or by more than $54 million from the level for 1986/87.

Over the past five years spending on silviculture has grown from $88 million to an estimated $249 million next year, demonstrating the priority given to this program.

Next year we will plant 200 million seedlings, compared to 74 million planted just seven years ago. We will also meet the other silviculture targets specified in the 1986-1991 Five Year Forest and Range Resource Program. In addition, funding to protect our existing forest resource will increase by 19 per cent.

We are reviewing all provincial forest management programs to determine our priorities for forest management in the future.

The total financial allocation for the Ministry of Forests and Lands will be $530 million next year, representing an increase of 15.5 per cent from this year.

The future of our mining industry depends on the discovery of new mineral deposits that can be brought into development when mineral prices rise.

The success of last year's Mineral Exploration Program has persuaded the government to continue funding for another year at a cost of $5 million. We shall spend an additional $2 million on geoscience activities, the first step in an expanded effort to identify mineral deposits for the future.

Coal represents one of our richest resources and the government is moving on several fronts to increase sales and to develop innovative uses of this fuel for thermal generation of electricity and other more diversified and marketable products.

Our government is a member of the Federal-Provincial task force set up to seek ways to sell more Western coal in Ontario, and is committed to participate in research and scientific activities related to coal.

The aquaculture industry is continuing to grow rapidly and a further $750,000 has been provided to the Ministry of Agriculture and Fisheries to meet increased program demands.

Self-Reliance for Business

Our future depends on our ability to generate business investment — the key question all governments face is how to ensure investment takes place.

No single measure will guarantee success. Most governments, at one time or another, offer generous tax holidays, incentive grants and other subsidies designed to lure new businesses. These measures are generally unsuccessful in the long run.

Competitive businesses survive without government assistance; uncompetitive ones need continued subsidies, or protection from competition, in order to survive.

Our government believes that the best way to ensure new investment is to establish a high level of business confidence in the province through competitive tax levels and by letting the private sector make its own investment decisions, without special subsidies or government interference.

Over the years, British Columbia governments have introduced many programs to encourage economic development and to deal with special situations of economic hardship.

The programs tend to linger on, long after the need has disappeared. We have conducted a review of economic development programs and assessed program effectiveness relative to costs. As a result, some programs will be eliminated and funding for others will be reduced.

The dramatic decline in interest rates has reduced costs substantially for farms and other businesses and the need for interest subsidies is gone.

The government has decided to eliminate the Partial Interest Reimbursement Program in the Ministry of Agriculture and Fisheries to allow the market to play a more traditional role. This will save an estimated $8.5 million in 1987/88. All claims submitted for 1986 prior to the deadline of May 31, 1987 will qualify for reimbursement.

No new initiatives will be funded under the *Farm Product Industry Act,* although all outstanding commitments will be honoured.

My colleague, the Minister of Agriculture and Fisheries, will also review the government's contributions to Farm Income Insurance in the coming year.

Funding will be reduced for the Special Investment Interest Subsidy Program and the Low Interest Loan Assistance Program. Funding for the grant portion of the Small Business Venture Capital Program will be eliminated. Greater attention will be focused on the more successful tax credit aspect of the program.

Increasing Emphasis on Local Government

Shifting responsibility to local governments is desirable, because it moves the provision of services closer to the people and because smaller governments tend to be more efficient and cost-conscious than larger ones.

We are acting to reach this goal.

Responsibility for operation of the transit systems in Greater Vancouver and Greater Victoria will be transferred to local authorities by April 1, 1988. The cost sharing arrangements will be reviewed in the coming months and any changes required will be implemented in 1988/89.

For the coming year, the government will provide a contribution of $158.6 million to British Columbia Transit for conventional and custom transit services throughout the province, including the SkyTrain and SeaBus systems.

The 1985 tax reforms reduced the tax base of regional districts. Legislative changes will be introduced to allow them to set variable tax rates to offset loss of tax revenue caused by the removal of machinery and equipment assessments from their tax base.

The landmark Premier's Provincial-Municipal Conference was held recently to provide direction on decentralization of government services.

One outcome of that conference is a committee that will identify issues for immediate action by the government. I am confident that, through mutual agreement with the municipalities, we can make significant progress over the next year.

Recently local governments have faced difficulties in obtaining liability insurance and in meeting the high premium increases asked by insurers.

We intend to help in two ways. We will introduce an improved version of a Bill previously presented to the House, that will both limit and define more closely the liability of local governments and elected officials. We shall also work with the Union of British Columbia Municipalities to pursue self-insurance options for its members, in order to contain liability insurance costs.

Investing for the Future

To build a new economy in British Columbia, we need to invest now.

We will be counting on businesses to invest in new plants and industries that will provide jobs for tomorrow. We will create the climate for this to happen. One of the most important elements of this climate is a highly skilled and educated labour force. This means we must invest in our people.

In British Columbia we are fortunate to have skilled people, especially in those traditional industries which must compete in world markets. But this is a time of transition, of rapid economic and social change, and our traditional natural resource industries will not be able to employ significant numbers of new employees in the future.

As in other advanced economies, most job growth in British Columbia has been, and is likely to continue to be in the service sector, where three out of every four workers are now employed.

Lifetime employment with one firm, or in one industry, is becoming a thing of the past. We live in a less stable economic world and skills become obsolete much more rapidly than in past decades.

Successful transitions, whether by societies or individuals, are accomplished by those with broadly based skills. It is our task to ensure those skills are acquired by our people, not only new entrants to the labour force but also those who need job training to return to work.

Education and Training Funding

The development of lifetime skills starts in the school system.

The provincial contribution to basic school operating budgets will go up by $42.3 million and a further $40.3 million will be made available to fund special initiatives in schools to improve the quality of programs. The government will also bear the full cost of the final reduction in non-residential school taxes caused by the three-year phase-in of the 1985 tax reforms, amounting to $44.8 million.

A key initiative will be a new, $3.5 million, Pacific Outreach program.

In recognition of the growing importance of our links to Asia, this program will establish a base of Oriental language training for students in schools throughout the province. It is my view that we must concentrate more and more on understanding our Pacific neighbours in order to play our full part in the Pacific Rim community.

Independent schools provide a valuable alternative to the regular public school system and at much lower cost for the general taxpayer. Funding for independent schools will increase by 42 per cent to $41 million next year, including an increase in the basic grant from 30 to 35 per cent of public school costs, as well as $2 million for special initiatives.

These increases in funding for the Ministry of Education amount to an increase of 11.3 per cent over the current year's budget.

Significant new funding will be provided in the coming year to improve our system of advanced education.

Base funding for colleges, institutes, universities and distance education, will be increased by $38.4 million, or 5.8 per cent, to meet cost pressures and higher expenses caused by enrollment increases. A further $27 million will be allocated for special advanced education initiatives, to be determined after discussion with the institutions.

These initiatives may include new centres of excellence, innovative teaching techniques and improved technology for distance learning.

This government is giving special attention to student financial assistance.

While we believe that students should make a personal investment in their education, we also believe that able students should not have to overcome major financial barriers.

With the help of advisers from the education community, including students, the Minister of Advanced Education and Job Training is developing a new student assistance program. It will limit debts facing some prospective students, recognize the higher costs incurred by those living away from home, and provide employment incentives for summer and part-time work.

The program will be a combination of loans and grants. Base funding for student assistance will rise 51 per cent, or by $8.9 million.

The current level of unemployment makes it especially difficult for some people to find work: students with training but little experience, employable income assistance recipients and people re-entering the labour force.

In the coming year we shall continue the employment and training initiative called 'JobTrac', begun last year. The budget for this program, which involves five ministries, will almost double to $80.7 million, including $54.6 million for employable income assistance recipients.

In addition to the allocation for income assistance recipients, JobTrac will provide $10 million for the Challenge 87 youth summer employment program, run jointly by the province and the federal government, $6.5 million for programs for the disabled and $8.2 million for other work experience programs.

The large increase in provincial funding for this program is made in the expectation that the federal government will also increase its contribution proportionately with that of the province.

Tourism

Tourism has become a major growth industry in the province. To follow up on the success of Expo 86 we are providing additional funding to the Ministry of Tourism, Recreation and Culture for a $15 million marketing program to maintain the tourism momentum generated in 1986.

Funding of $300,000 will be provided for start-up costs for the Pacific Rim Institute of Tourism. This novel initiative will improve our own capability to better serve this economic sector by providing accredited training and make us world leaders in developing a very promising export industry.

With the Vancouver Trade and Convention Centre due to open in a few months and the Victoria Convention Centre now under construction, we are adding to an impressive range of facilities to attract conferences from around the world.

Community Economic Development

Our government, through the Minister of Economic Development, will provide $3 million to challenge communities throughout the province to take the initiative in establishing local industries and finding seed capital for local entrepreneurs.

The program will be a catalyst for greater local self reliance and new thinking about the future of our communities. The government invites community leaders, and all those who are interested, to forward suggestions for the design of this community development program to the Minister of Economic Development.

Diversification

British Columbia is endowed not only with a diverse natural resource base, but also with vibrant business, research and academic sectors.

Up to $10 million is being made available to the Ministry of Economic Development to undertake a variety of initiatives to help focus the energy of these sectors towards common economic development goals for the province. These initiatives will include setting up an Enterprise Centre at the B.C. Pavilion to act as a one stop focus for business to deal with the province's resource and economic development ministries.

There will also be initiatives to coordinate efforts of different groups to ensure that British Columbia gains its fair share of federal research and development funding and follows a technology development strategy that will help prime our future economy.

Employee Equity Program

The Minister of Economic Development will soon be introducing legislation to implement an employee equity program. This program will provide a provincial tax credit for employees participating in business ownership through employee equity corporations.

These corporations will be organized and managed by employees to undertake investments under a wide range of circumstances, to both create and protect jobs in the province.

We have asked the federal government to participate financially in this program under an initiative announced in the 1985 federal budget.

FINANCIAL INSTITUTIONS DEVELOPMENTS

I would like to take a moment to address some issues associated with the regulation of financial institutions. In this Session, I will be proceeding on three fronts, each involving major legislative initiatives.

Trust, Insurance and Credit Union Legislation

First, I am proposing a major revision of our statutes dealing with trust companies, insurance companies and credit unions. This is a time of great change in financial markets and financial institutions, in Canada and throughout the world.

It has been characterized by a blurring of distinctions among financial functions and types of financial institutions. If British Columbia is to maintain a viable financial sector, it is imperative that the government give institutions located here the flexibility and powers needed to compete in modern financial markets.

At the same time, the government is obligated to provide the safety and stability that the public and the institutions both count on. This is a difficult balance to strike at the best of times, and one for which our present legislation is completely unsuited.

As a result, I will be introducing a completely new *Trust Company Act* and extensive amendments to the *Insurance Act*. I will also release a white paper dealing with regulations and deposit insurance for the credit union movement.

Captive Insurance Companies

Second, I will introduce legislation to provide for the establishment and regulation of "captive" insurance companies.

Captive insurers are companies generally owned by an industry or trade association or corporate group, which insure only their owners. No third-party insurance or insurance of the general public is undertaken.

Therefore, since there is less need for public protection, the regulatory environment will be less strict than for regular insurance companies. Nevertheless, captives will be required to operate prudently.

This is a prime example of encouraging development by removing a regulatory barrier. I expect that this initiative will, over time, generate substantial activity without any other incentives.

International Financial Business

The third initiative will be the introduction of legislation to encourage international financial business.

The incentives provided will be at least as generous as those provided by Quebec, but with one important extension. The Quebec initiative is purely a tax incentive, available to institutions with the power to conduct some specific international financial transactions.

We will provide the same tax incentives, but will also allow certain institutions to incorporate special subsidiaries empowered to conduct international financial activities. This regulatory aspect of the initiative will be an important extension.

My intention is to defer bringing the international financial business measure into force pending comment from the industry and, particularly, pending a strong indication that the measure will be effective.

During a recent trip to Asia, I was advised that we will need more substantive federal measures than those now proposed in order for a provincial measure to be successful in attracting new activity and businesses.

I will, therefore, ask the business community in Vancouver to more clearly define the actions required of both levels of government and, if necessary, to lead an effort to obtain a significant extension of the proposed federal legislation.

FEDERAL-PROVINCIAL RELATIONS

For some time now, our government has made representations to the federal government about the need for increased attention by Ottawa to the economic situation here in the Pacific Region.

Our government has outlined its concerns and its willingness to co-operate with the federal government in a positive manner that will allow British Columbia to play a full part within Confederation as a strong economic region.

We welcome the fact that, as a result of meetings between our Premier and the Prime Minister of Canada, a Council of Ministers has been established to deal with all matters of interest and concern affecting both levels of government.

The new council, which will meet on a regular basis, will open up a new and direct channel of communication and our government believes it will play an important part in helping address and rectify the economic inequities and imbalances that presently exist.

For our part, British Columbia will make every effort to ensure the two governments act in concert so that together, working co-operatively, we can shape and put in place policies and programs that will build a stronger British Columbia and Canada.

REVENUE MEASURES

In the past few months we have reviewed the provincial tax system to determine what changes might be warranted to improve fairness and enhance our ability to meet social and economic objectives. As a result of this review, I can announce today a series of measures which will:

- Make the tax system fairer for British Columbians.
- Maintain a positive climate for development.
- Reinforce environmental priorities.
- Make taxes simpler and more understandable.
- Generate additional revenue for essential program enhancements.

Designing a set of revenue measures to meet these criteria has demanded creative, forward-looking solutions. I am proposing a mixture of increases and reductions which will shift the balance of the tax system. Overall, the revenue measures will generate $185 million in 1987/88.

Fuel Taxes

Let me begin with fuel taxes.

I am pleased to announce that there will be no general motor fuel tax rate increase; British Columbia will continue to have the lowest general fuel tax rate among the eight provinces levying these taxes. There will, however, be several changes to fuel taxes.

- First, effective April 1, 1987, provincial tax on leaded fuel will be set at 2 cents per litre above the general rate for unleaded fuel.

This change is motivated by a concern for the quality of our natural environment. The use of lower-priced leaded gasoline in a vehicle equipped with a catalytic converter — commonly called "misfueling" — quickly and permanently destroys the converter's effectiveness and drastically increases the emission of toxic pollutants. As well, the harmful effects of atmospheric lead itself, particularly on children, have been confirmed in many studies.

For these reasons, the government has decided to use the tax system to narrow or eliminate the price differential between leaded and unleaded gasoline and thereby remove the incentive to misfuel.

This measure will generate $37 million additional revenue for the 1987/88 fiscal year, and a declining amount in future years as leaded gasoline is gradually phased out under federal regulations.

- Second, provincial tax on gasoline mixed with ethanol will be set at 2 cents per litre below the appropriate gasoline tax rate. This measure will be made effective upon the completion of a facility to produce ethanol in the province.

This change is intended to promote the use of a cleaner fuel and to assist Peace River grain farmers in finding a new and stable market.

- Third, effective April 1, 1987, marine bunker fuel and natural gas used in stationary engines will be taxed at a rate of 7 per cent on the actual purchase price, rather than at a cents-per-litre rate determined by formula.

This change will be fairer and easier to administer and, in the case of natural gas used in some stationary engines, will substantially reduce the amount of tax paid.

Hotel Room Tax

- Effective midnight tonight, the Hotel Room Tax will be increased from 7 per cent to 8 per cent.

A further 2 per cent will, on application, be levied and passed through to the local level. This will assist municipalities and communities in the operation of convention centres and other tourism amenities.

This increased revenue will be beneficial to a number of communities, operating significant tourist attractions.

Social Service Tax

Later in my address I will be announcing major changes affecting social service tax. At this point, I would like to mention several changes to the sales tax.

- First, the potential for the same person to pay tax more than once on the same item will be eliminated for certain types of transactions.

This potential for multiple taxation can arise in three types of transactions: sale and leaseback arrangements; repossessions; and the re-purchase of so-called "claiming horses" in certain horse racing events. This is clearly unfair and will be remedied.

- Second, measures will be announced shortly to modernize the rules allowing tax-free transfers of property among closely-related individuals or corporations.
- Third, leases and rentals of tangible personal property for terms of less than one month will now be subject to tax on the lease price.

Prior to the budget, these short-term leases were exempt, creating inconsistencies and administrative difficulties.

- Fourth, out-of-province companies which use dedicated cable television channels to advertise their product in the province will be required to collect and remit social service tax.

In recognition of federal/provincial discussions, this provision will not become effective until the legislation is proclaimed. Nevertheless, I am determined to ensure that these companies are subject to the same requirements as businesses in British Columbia.

- Fifth, effective midnight tonight, the following will become exempt from social service tax:
  - — drill bits, grinding media, explosives and related blasting supplies when used for mineral exploration and extraction;
  - — knitting yarns and natural fibres; and,
  - — certain safety, farm and aquaculture-related items outlined in the appendices to the budget document.

The most significant of these exemptions are those which will benefit the mining industry, providing $10 million in relief from taxes in 1987/88.

These exemptions implement one of the recommendations of the recent Mineral Industry Task Force Report. The Task Force has done an excellent job of quickly responding to the government's request for information and recommendations.

Over the coming year, my colleague, the Minister of Energy, Mines and Petroleum Resources, and I will be giving serious consideration to other recommendations of the Task Force and we will continue to seek ways to assist this important industry.

Property Tax

I would now like to announce a number of changes intended to correct inequities in the property tax system.

- First, provincial tax rates on residential and recreational properties in rural areas will increase to $1.70 per $1,000 of assessed value, effective January 1, 1988.

This continues a gradual increase in rural tax rates intended to reduce the provincial subsidization of services which occurs particularly in urbanized non-municipal areas. Taxpayers in municipalities consider it unfair that neighbours in adjacent unorganized areas receive similar services, yet are subject to a much lighter tax load.

- Second, to allocate more fairly the cost of local government services, the minimum property tax payable after application of the Home Owner Grant will increase from $200 to $350. For senior citizens and others who receive the supplementary Home Owner Grant, the minimum property tax will now be $100 per year.

- Third, the preferential tax rate for seasonal resorts will be eliminated, effective the 1989 taxation year.

The special circumstances of seasonal resorts are already captured in market value assessments, so the present, preferential tax treatment confers an additional benefit on these properties.

Administration of the special rate provisions has been difficult due to problems in verifying eligibility. As a result, this provision has been open to abuse, and has been somewhat arbitrary. It has also had the perverse effect of encouraging seasonal closures.

- Fourth, I am proposing to close three property tax loopholes that have arisen over the past several years, by clarifying the application of the pollution control exemptions, re-establishing the taxation of water lots and more clearly stating what constitutes a physical change for assessment purposes.

Property Assessment

I would also like to take this opportunity to announce that over the next year the government will, in consultation with local government and taxpayers, prepare a new Assessment Act for introduction at the next Legislative Session.

This is an important initiative which is aimed at improving the administration of the property tax, providing local governments with a more certain tax base and streamlining the existing assessment appeal process. Work on this initiative will

proceed in close cooperation with local government and will take place within the context of the existing government policy of assessment at market value by a single, province-wide Assessment Authority.

On a related matter, I remain concerned about the difficulties that assessment appeal decisions have created for resource communities.

In order to deal with these problems, I have asked the Union of British Columbia Municipalities to consider proposals for a fiscal safety net that would help insulate municipalities against significant reductions to their tax bases resulting from assessment appeals.

In addition, in order to find a longer-term solution to the problem, I will be circulating the report of the Industrial Assessment Committee, which has been working on this issue over the past year, to municipalities and taxpayers. Following these consultations, I will be introducing measures later this year to govern the valuation of industrial property.

Farm Tax Benefits

To assist the agricultural sector in the province, there has been established over the years an extensive set of special property tax, social service tax and fuel tax provisions to reduce costs for *bona fide* farmers.

The definition of a *bona fide* farmer is based on the value of sales of agricultural products. The current minimum level of sales for qualification, set in 1979, is $1,600. I have received considerable advice that this threshold is too low and that it results in significant unintended tax benefits flowing to non-commercial farmers.

- To correct this situation, the annual farm revenue threshold will be increased from the present $1,600 per year to $5,000 per year, effective for the 1989 taxation year.

Insurance Premium Tax

Last November, I announced my intention to ask the Legislature to repeal the amendments made by the *Insurance Premium Tax Amendment Act (1986)*. That Act established an exemption from insurance premium tax for British Columbia headquartered insurance companies, a provision with serious drawbacks.

It is inconsistent with our support of free-trade principles, it advertises a parochial perspective which has no place in the province's increasingly outward-looking orientation, and it discriminates unfairly against those companies which have long carried on business in British Columbia from a base outside the province.

- Legislation will be introduced today to delete the exemption of British Columbia headquartered insurers from insurance premium tax.

I would like to repeat my invitation to the insurance industry to propose alternative measures that would contribute to the development of a strong local industry while avoiding the drawbacks I have just mentioned.

I am making an additional change in the interest of reducing discrimination.

- Premiums collected by the Insurance Corporation of British Columbia (ICBC) will be subject to insurance premium tax, effective April 1, 1987.

ICBC is the largest insurer in the province but has, up to now, been exempted from this tax, giving the corporation an unfair advantage over private insurers. This measure is expected to generate $25 million in revenue for 1987/88.

Corporation Capital Tax

In a similar vein, I am proposing to change the structure of the corporation capital tax.

- Effective April 1, 1987, the corporation capital tax will apply to all banks and trust companies operating in British Columbia, with paid-up capital in excess of $500 million. A new deduction will also be introduced to permit provincial corporate income tax to be offset against corporation capital tax.

As a result of changes made in the 1985 provincial budget, beginning April 1, 1987 the corporation capital tax would have applied only to major banks that have their head office outside British Columbia. This has been widely criticized as being unfair, discriminatory and inconsistent with our efforts to make Vancouver an international financial centre.

The corporation capital tax on banks has been used by several provinces as a means of obtaining revenue from institutions that have used special tax provisions to virtually eliminate their income tax liability.

Canadian banks now argue that they are beginning to generate increasing amounts of taxable income. To the extent that this is true, financial institutions will be permitted to offset their corporation capital tax liability. The tax will now ensure that a minimum provincial tax is paid by large financial institutions.

User Fees

The government provides many services to special interest groups or business firms and new ones are added every year. In some cases, user fees are charged for these services; many other services are provided without charge. Increasing fees-for-service or introducing new fees can raise strong objections.

Nevertheless, it is important that fees reflect the corresponding service costs to avoid transferring to the general taxpayer the costs of providing services for special groups.

- Where appropriate, the government will move fees more into line with costs of special services.

I expect that fee increases of various kinds will provide approximately $35 million in additional revenue in 1987/88. Among the most significant increases will be increases to driver licence fees and certain motor vehicle fees.

Phase-In of Previous Tax Changes

Before I announce the major tax changes for 1987, I would like to remind British Columbians that the current fiscal year will see the final phasing-in of many measures that were introduced with the 1985 and 1986 budgets, and which were part of a major initiative to reduce taxes for businesses.

I am pleased to be able to say that the following measures will proceed as planned.

- The ratio of industrial and commercial non-residential school tax rates to average residential tax rates, which was 3.4:1 three years ago, has been already reduced to the target level of 2:1 for 1987 without requiring further rate reductions. In addition, for 1987 non-residential school taxes on utilities will be decreased.
- Property taxes on machinery and equipment will be completely eliminated for 1987 and subsequent years.
- Effective April 1, 1987, corporation capital taxes are completely eliminated except for large financial institutions.
- Effective January 1, 1987, the general corporate income tax rate was reduced from 16 to 15 per cent of taxable corporate income. It will, as promised, be reduced to 14 per cent on January 1, 1988.

These and other important measures were part of a broad package designed to give, on an annual basis, more than $600 million of tax relief to assist the competitive position of British Columbia businesses and industries, and thus increase the well-being of the province as a whole.

Major Measures

I would now like to announce several major tax measures which demonstrate the innovative approach our new government is taking to the British Columbia tax structure.

Property Purchase Tax

- Effective March 23, 1987, a new Property Purchase Tax will replace the *ad valorem* land title fees charged on transactions registered with the Land Title Office.

The new tax will be levied on most conveyances of title to real property at a rate of 1 per cent on the first $200,000 of value and 2 per cent on amounts in excess of $200,000. Unlike the current land title fees, this will be a tax solely on the value conveyed; no separate tax will be levied in respect of mortgages or other such charges.

In introducing this measure, I am pleased to announce that the transfer of residential, family farm, or recreational property to a family member will be exempt.

This is a new exemption, one which makes this tax more fair than the fees levied under the *Land Title Act*. The *Property Purchase Tax Act* clearly sets out the government's intention with respect to how and when the tax is to be collected.

The property purchase tax is expected to generate $168 million in 1987/88. It will help to diversify the government's sources of revenue without placing a disproportionate burden on taxpayers who are not in a position to pay.

It also provides a fair return for the public on rising property values due to high levels of economic activity.

Personal Income Tax

- Effective for the 1987 tax year, the provincial personal income tax will be restructured, by the elimination of the two surtaxes, and a new rate of 51.5 per cent of basic federal tax will be established.

Although the present nominal income tax rate is 44 per cent of basic federal tax, this rate is misleading because of the existence of the two surtaxes — health care maintenance surtax and high income surtax — which raise the effective rate to an average 48 per cent of federal tax.

A more significant indicator of the economic incentive effect of income tax is the "marginal tax rate". This is the amount of income tax collected on the last dollar of income earned by a taxpayer. The marginal rate of income tax paid by those in the top income bracket in British Columbia is currently third lowest among Canadian provinces.

The proposed restructuring will simplify the provincial income tax and will decrease the maximum marginal tax rate, making it the second lowest in Canada.

This measure is expected to raise $184 million in fiscal 1987/88.

In concert with this increase in personal income tax, the principle of maintaining fairness and integrity in our tax system requires a parallel increase in the tax rate on small business income.

If this is not done, there is an opportunity for some taxpayers, particularly high income professionals, to pay less by incorporating and having their income taxed as dividends of a small business corporation rather than as salary. This would be unfair to those who have no choice in the way their income is received.

- Accordingly, effective July 1, 1987, the small business corporate income tax rate in British Columbia will increase from 8 per cent to 11 per cent.

This measure is expected to raise $25 million in 1987/88.

Social Service Tax

Finally, I am pleased to announce the most significant tax measures in this budget.

- Effective midnight tonight, the social service tax rate is reduced to 6 per cent from the present 7 per cent.

- I am also announcing the government's commitment to further reduce the social service tax rate to 5 per cent within the 1987/88 fiscal year.

In addition, the government intends during its mandate to bring about further reductions in this tax.

Sales taxes have often been criticized for imposing a heavier burden on those with lower incomes.

While the fiscal situation has, for many years, compelled the levying of such a tax, past British Columbia governments have tried to minimize this effect on low income individuals and families by exempting such necessities of life as food, shelter, heating fuel and children's clothing.

In 1987, by lowering the rate at which this tax is applied, I am reducing this burden further, significantly adding to the progressivity of the tax system.

- I am pleased to announce that effective midnight tonight, social service tax will no longer apply to restaurant meals.

By removing restaurant meal taxes we bring philosophical consistency to our taxation policies. We not only eliminate a regressive tax but also enhance tourism and overall economic vitality.

The expected cost of these changes to the social service tax is $257 million in 1987/88. The revenue impact will be even greater when in the course of the year, the sales tax is reduced to 5 per cent.

This package of measures represents a major shift in our tax system — solid proof of the government's fresh, fair and forward-looking approach. We have accomplished a considerable reduction in the social service tax burden while establishing a stable base for government revenues.

British Columbia has been a leader among provinces in the attention it has given to its tax system as an instrument for fairness, economic growth and prosperity. I firmly believe this leadership will be greatly enhanced by the revenue measures I have announced today.

CONCLUSION

Mr. Speaker, this first budget of our new government marks a turning point in British Columbia's affairs.

We are making a fresh start in leading this great province into an era of development — development of a new economy and development of an enlightened and fair society.

This is a government that is caring and responsible. We are providing help for the disadvantaged and maintaining a high quality health care system.

We are investing in our people and our resources to secure our future prosperity. We are reducing government's role in business decisions. We are increasing the role of local governments in providing public services.

We are making the tax system more equitable while maintaining a positive climate for development. And we are doing all of this within the context of a lower deficit.

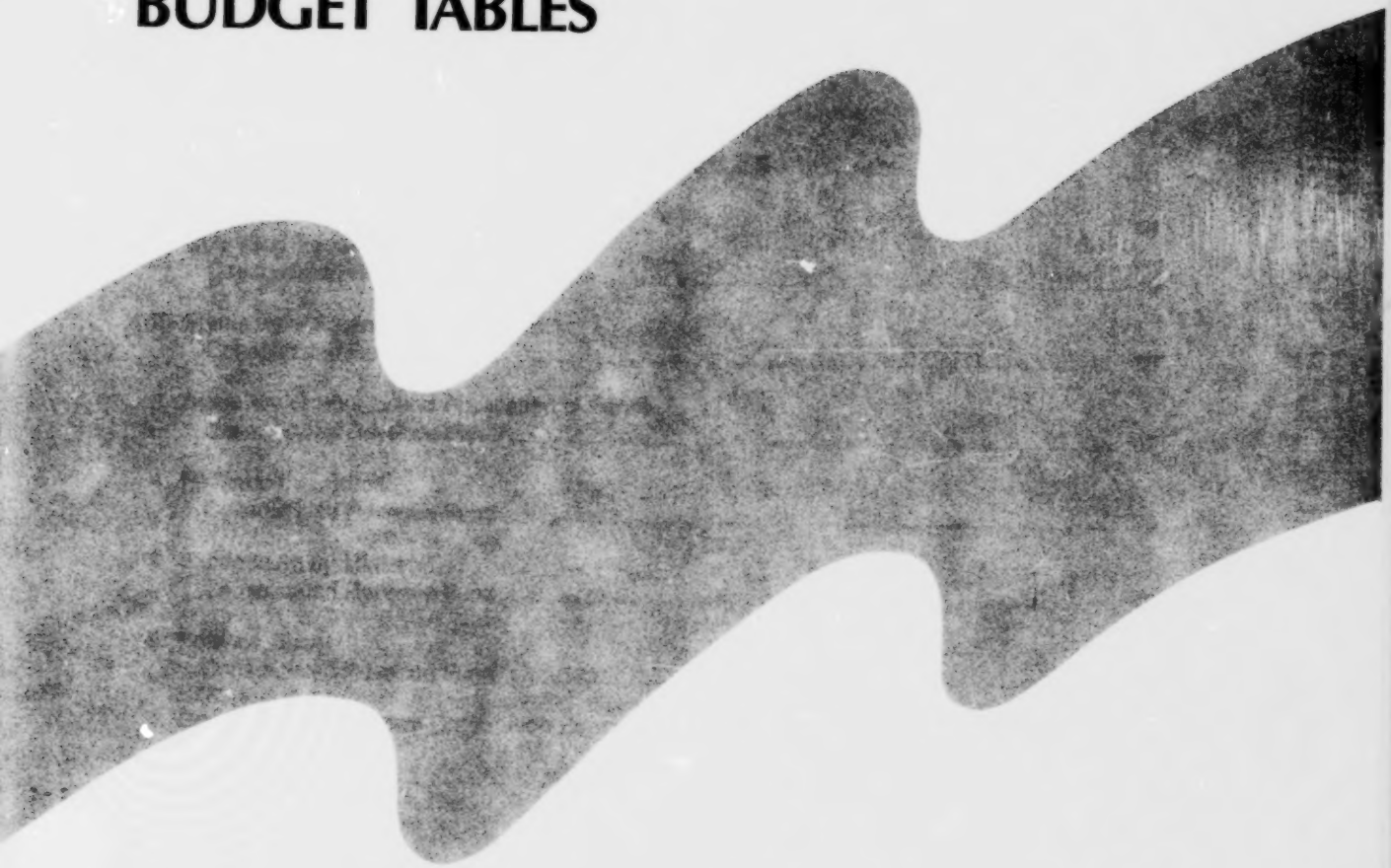
It is gratifying at this point to review the remarkable accomplishments we have achieved in building this budget under severe constraints.

And I would be remiss if I failed to say that I owe a great deal to my colleagues, whose encouragement, dedication and teamwork have made this possible.

It is now up to all of us to work with the people of British Columbia to meet the challenges of the coming year and realize the full potential of years to come.

Mr. Speaker, thank you.

BUDGET TABLES



BUDGET TABLES

	Page
1. Operating Transactions and Net Equity Consolidated Revenue Fund	35
2. Summary of Financial Transactions Consolidated Revenue Fund	36
3. Summary of Source and Application of Funds Consolidated Revenue Fund	37
4. Revenue by Source Consolidated Revenue Fund	38
5. Expenditure by Ministry Consolidated Revenue Fund	40
6. Balance Sheet Consolidated Revenue Fund	42
7. Government and Crown Corporation Borrowing Requirements and Sources of Funds	44
Glossary of Terms	46

Table 1

Operating Transactions and Net Equity
Consolidated Revenue Fund

	Actual 1985/86	Revised Forecast 1986/87	Estimate 1987/88
	($ millions)		
Operating Transactions:			
Revenue	8,179.8	8,578.0	9,370.0
Expenditure	9,146.3	9,749.0	10,220.0
Surplus (Deficit)	(966.5)	(1,171.0)	(850.0)
Net Equity (Net Deficiency) at Year End:			
Opening Balance	(1,585.2)	(2,551.7)	(3,722.7)
Surplus (Deficit) for the Year	(966.5)	(1,171.0)	(850.0)
Closing Balance	(2,551.7)	(3,722.7)	(4,572.7)

Operating revenue is estimated to increase by 9.2 per cent from the revised forecast for 1986/87 to $9,370 million for 1987/88. The revenue estimate includes the impact of the measures introduced in the 1987 budget, which are expected to increase 1987/88 operating revenue by $183 million.

Operating expenditure is estimated to increase by 4.8 per cent from the revised forecast for 1986/87 to $10,220 million for 1987/88.

The deficit for 1987/88 is estimated at $850 million, a decrease of $321 million from the revised forecast for 1986/87. By March 31, 1988, the excess of financial liabilities over financial assets, or net deficiency, is estimated at $4,573 million.

Table 2

Summary of Financial Transactions
Consolidated Revenue Fund

	Actual 1985/86	Revised Forecast 1986/87	Estimate 1987/88
		($ millions)	
Financial Requirements			
Operating Transactions:			
Revenue	8,179.8	8,578.0	9,370.0
Expenditure	9,146.3	9,749.0	10,220.0
Surplus (Deficit)	(966.5)	(1,171.0)	(850.0)
Net Receipts from Financing and Working Capital Transactions and Fiscal Agency Loans	105.7	69.0	22.0
Total Direct Financial Requirements	(860.8)	(1,102.0)	(828.0)
Financial Sources			
Net Direct Borrowing for Government Purposes	721.2	1,140.0	825.0
Decrease (Increase) in Cash and Temporary Investments	139.6	(38.0)	3.0
Total Direct Financial Sources	860.8	1,102.0	828.0

The provincial government's financial requirements for 1987/88 are estimated at $828 million. The requirement to finance the deficit of $850 million is expected to be partially offset by a net cash inflow of $22 million from financing and working capital transactions.

Net direct borrowing for government purposes is expected to total $825 million during 1987/88. The remaining financial requirements of the provincial government are expected to be met by a reduction in cash and temporary investments of $3 million.

Table 3

Summary of Source and Application of Funds
Consolidated Revenue Fund

	Actual 1985/86	Revised Forecast 1986/87	Estimate 1987/88
	($ millions)		
Source of Funds:			
Revenue	8,179.8	8,578.0	9,370.0
Net Direct Borrowing:			
For government purposes	721.2	1,140.0	825.0
Fiscal Agency funds	508.2	664.7	977.7
	1,229.4	1,804.7	1,802.7
Financing and Working Capital Transactions Net Receipts (Disbursements)	251.6	31.0	25.0
Total Source of Funds	9,660.8	10,413.7	11,197.7
Application of Funds:			
Expenditure	9,146.3	9,749.0	10,220.0
Fiscal Agency funds reloaned to Crown corporations	514.5	664.7	977.7
Total Application of Funds	9,660.8	10,413.7	11,197.7
Financing and Working Capital Transactions Net Receipts (Disbursements):			
Decrease (increase) in accounts receivable	(19.4)	(63.9)	20.6
Decrease (increase) in inventories	(3.6)	(21.5)	(4.9)
Decrease (increase) in investments in and amounts due from Crown corporations and agencies	108.0	21.1	21.0
Decrease (increase) in loans, advances and mortgages receivable	29.9	19.7	(81.1)
Decrease (increase) in other assets	(9.7)	(1.4)	(0.8)
Increase (decrease) in accounts payable and accrued liabilities	16.2	96.9	72.6
Increase (decrease) in amounts due to Crown corporations and agencies	(26.1)	16.2	(10.2)
Increase (decrease) in deferred revenue	16.7	1.9	4.8
Decrease (increase) in financing and working capital transactions other than cash and temporary investments	112.0	69.0	22.0
Decrease (increase) in cash and temporary investments	139.6	(38.0)	3.0
Net receipts (disbursements)	251.6	31.0	25.0

This table provides details of the major flows of funds of the provincial government. Sources of funds are expected to total $11,198 million during 1987/88, including revenue of $9,370 million, net borrowing for government purposes of $825 million, net fiscal agency borrowing on behalf of Crown corporations of $978 million and net receipts from changes in financing and working capital transactions of $25 million.

These funds will be used to meet 1987/88 estimated provincial government expenditure of $10,220 million. In addition, the $978 million in funds raised by the provincial government through fiscal agency borrowing will be reloaned to Crown corporations.

Table 4

Revenue by Source
Consolidated Revenue Fund

	Actual 1985/86	Revised Forecast 1986/87	Estimate 1987/88	Increase (Decrease) 1986/87–1987/88
		($ millions)		(per cent)
Taxation Revenue:				
Personal income	2,073.1	2,243.0	2,562.0	14.2
Corporation income	323.5	260.0	387.0	48.8
Social service	1,451.8	1,580.0	1,393.0	(11.8)
Fuel	420.0	372.0	420.0	12.9
Other	381.0	439.0	581.0	32.3
	4,649.4	4,894.0	5,343.0	9.2
Natural Resource Revenue:				
Petroleum and natural gas	273.8	182.0	179.0	(1.6)
Minerals	57.2	56.0	40.0	(28.6)
Forests	144.2	208.0	474.0	127.9
Water	213.9	234.0	212.0	(9.4)
Other	10.5	11.0	13.0	18.2
	699.6	691.0	918.0	32.9
Other Revenue:				
Sales and services	221.8	267.0	287.0	7.5
Licences and permits	165.9	181.0	208.0	14.9
Interest	84.4	57.0	62.0	8.8
Miscellaneous	65.3	69.0	81.0	17.4
	537.4	574.0	638.0	11.1
Contributions from Government Enterprises:				
Liquor Distribution Branch	398.4	426.0	432.0	1.4
Other	—	23.0	20.0	(13.0)
	398.4	449.0	452.0	0.7
Contributions from Federal Government:				
Established Programs Financing	1,091.3	1,218.0	1,228.0	0.8
Canada Assistance Plan	595.7	603.0	629.0	4.3
Other	138.6	142.0	162.0	14.1
	1,825.6	1,963.0	2,019.0	2.9
Non-Recurring Revenue	69.4	7.0	—	—
TOTAL REVENUE	8,179.8	8,578.0	9,370.0	9.2

Consolidated Revenue Fund revenue for 1987/88 is estimated at $9,370 million, an increase of 9.2 per cent from the revised forecast for 1986/87. The revenue estimate reflects the impact of the measures introduced in the 1987 budget, which are expected to increase revenue by $183 million.

Taxation revenue is expected to increase by 9.2 per cent from the 1986/87 revised forecast to $5,343 million. Personal income tax revenue is expected to increase by 14.2 per cent to $2,562 million as a result of growth in economic activity and the effect of tax measures introduced in the 1987 provincial budget. Corporation income tax revenue is estimated at $387 million, an increase of 48.8 per cent due to tax measures announced in the budget and an expected prior year adjustment payment from the federal government pertaining to the 1986 taxation year. Social service tax revenue is expected to decrease by 11.8 per cent to $1,393 million, also due to tax rate changes announced in the budget. Fuel tax revenue is estimated at $420 million for 1987/88, up 12.9 per cent due to an increased tax rate on leaded fuels and the effects of the most recent federal budget. Other taxation revenue shows an increase of 32.3 per cent, primarily due to the new property purchase tax.

Natural resource revenue is estimated at $918 million, up 32.9 per cent from 1986/87. Most of this increase is due to the 15 per cent lumber export tax on lumber shipped to the United States which will be levied by the federal government and returned to the province. This increase in revenue will be partially offset by lower mineral revenue as a result of low prices for coal and other minerals and lower water rental revenue due to a decline in electricity export sales in 1986.

Contributions from the federal government are expected to increase by 2.9 per cent during 1987/88 to $2,019 million. Established Programs Financing cash contributions are expected to increase by only 0.8 per cent due to the return, in 1986/87, of revenue withheld by the federal government until British Columbia agreed to eliminate hospital user fees. Excluding this item in 1986/87, EPF cash contributions are expected to increase by 5.2 per cent in 1987/88. Other federal contributions are forecast to increase by 14.1 per cent, as a result of increased cost-shared expenditure by the provincial government.

Table 5

Expenditure by Ministry
Consolidated Revenue Fund

	Estimates 1986/87[1]	Revised Forecast 1986/87[1]	Estimates 1987/88	Increase (Decrease) 1986/87–1987/88[2]
	($ millions)			(per cent)
Legislation	10.9	10.2	14.2	39.2
Auditor General	4.4	4.0	4.5	12.5
Ombudsman	2.4	2.3	2.5	8.7
Office of the Premier	2.4	2.4	2.7	12.5
Advanced Education and Job Training	739.3	726.6	800.9	10.2
Agriculture and Fisheries	117.0	102.8	99.4	(3.3)
Attorney General	389.1	416.8	425.8	2.2
Economic Development	93.5	64.5	82.7	28.2
Education	1,228.0	1,227.2	1,367.1	11.4
Energy, Mines and Petroleum Resources	35.6	28.9	32.9	13.8
Environment and Parks	130.9	125.1	137.1	9.6
Finance and Corporate Relations	64.1	69.4	68.6	(1.2)
Forests and Lands	366.6	348.3	424.8	22.0
Health	2,939.1	3,072.2	3,176.0	3.4
Intergovernmental Relations	3.9	3.3	4.6	39.4
Labour and Consumer Services	21.5	22.7	22.5	(0.9)
Municipal Affairs	413.4	403.5	417.8	3.5
Provincial Secretary and Government Services	59.4	61.7	54.6	(11.5)
Social Services and Housing	1,327.0	1,313.2	1,391.4	6.0
Tourism, Recreation and Culture	46.7	47.6	54.4	14.3
Transportation and Highways	993.1	982.8	862.8	(12.2)
Other Appropriations:				
Management of the Public Debt	457.9	400.0	530.2	32.6
Contingencies	50.0	38.5	50.0	29.9
Critical Industries Commission	0.5	0.4	—	—
Crown Land Account	36.2	32.2	22.0	(31.7)
Lottery	110.1	242.4	170.5	(29.7)
TOTAL EXPENDITURE	9,643.0	9,749.0	10,220.0	4.8

[1] For comparative purposes, the 1986/87 estimates and the 1986/87 revised forecast have been restated to be consistent with the 1987/88 estimates. This does not affect total expenditure shown for 1986/87.

[2] The percentage change is based on the difference between the 1986/87 revised forecast and 1987/88 estimates.

Consolidated Revenue Fund expenditure for 1987/88 is estimated at $10,220 million, an increase of 4.8 per cent from the revised forecast for 1986/87 and 6.0 per cent from the budget for 1986/87.

- Capital expenditure of $425 million for highway construction projects and dyking is included in the 1987/88 expenditure estimate. This is down 26 per cent, or $149 million, from capital expenditure in 1986/87, due mainly to projected lower spending for the Coquihalla Highway and the Alex Fraser Bridge projects.

- Expenditure of $98 million is estimated under the federal/provincial Economic and Regional Development Agreement for silviculture and forest management projects, industrial development, small business and tourism industry development, agri-food regional development, science and technology development and mineral exploration and development.

- Transit services expenditure is estimated at $159 million for community bus services and SkyTrain.

- Expenditure estimates include second year spending from the Health Improvement Fund of $240 million and from the Fund for Excellence in Education of $218 million.

- JobTrac expenditure for 1987/88 is estimated at $81 million to provide skills, training and employment for those entering the job market.

Table 6

Balance Sheet
Consolidated Revenue Fund

As at March 31,	Actual 1986	Revised Forecast 1987	Estimate 1988
		($ millions)	
Assets:			
Cash and temporary investments	64.6	102.6	99.6
Accounts receivable	713.7	777.6	757.0
Inventories	109.6	131.1	136.0
Investments in and amounts due from Crown corporations and agencies	380.8	359.7	338.7
Loans, advances and mortgages receivable	440.6	420.9	502.0
Fiscal Agency loans	1,824.0	2,488.7	3,466.4
Other assets	128.0	129.4	130.2
Total Assets	3,661.3	4,410.0	5,429.9
Liabilities:			
Accounts payable and accrued liabilities	838.3	935.2	1,007.8
Amounts due to Crown corporations and agencies	143.0	159.2	149.0
Deferred revenue	210.6	212.5	217.3
Direct debt issued for Government purposes	3,197.1	4,337.1	5,162.1
Direct debt to finance Fiscal Agency loans	1,824.0	2,488.7	3,466.4
Total Liabilities	6,213.0	8,132.7	10,002.6
Net Equity (Net Deficiency)	(2,551.7)	(3,722.7)	(4,572.7)
Total	3,661.3	4,410.0	5,429.9
Guaranteed Debt	11,975.0	11,657.7	10,775.5
Trust Funds Under Administration	13,287.1	14,850.0	16,350.0

At March 31, 1988, it is estimated that the financial assets of the government will total $5,430 million while financial liabilities will total $10,003 million. As a result, the excess of financial liabilities over financial assets, or net deficiency, at March 31, 1988, is estimated at $4,573 million.

During 1987/88, direct debt incurred for government purposes is expected to increase by $825 million to $5,162 million. In addition, fiscal agency debt incurred on behalf of Crown corporations by the provincial government is expected to increase by $978 million to $3,466 million. All of the fiscal agency funds are reloaned to Crown corporations, which are responsible for the debt servicing costs and repayments of principal for the debt borrowed on their behalf by the government.

Crown corporations and agencies also incur debt on their own behalf, which is guaranteed by the provincial government as to principal, premium if any, and interest. At March 31, 1988, net guaranteed debt is estimated to total $10,776 million, down 7.6 per cent from March 31, 1987. Total Crown corporation net debt, including debt issued by the provincial government on behalf of Crown corporations and guaranteed debt, is estimated to total $14,242 million at March 31, 1988, up 0.7 per cent from the previous year.

Trust funds under administration do not form part of the Consolidated Revenue Fund. It is estimated that they will increase to $16.4 billion by March 31, 1988. Public sector pension funds, sinking funds and the reserve funds of the Workers' Compensation Board are the main components.

Table 7

Government and Crown Corporation Borrowing Requirements and Sources of Funds

	Actual 1985/86	Revised Forecast 1986/87	Estimate 1987/88
		($ millions)	
BORROWING REQUIREMENTS:[1]			
Gross Borrowing — Government Purpose[2]	955.7	1,267.9	910.4
Crown Corporation Gross Borrowing[3]			
Commercial:			
British Columbia Hydro and Power Authority	87.7	380.0	500.0
British Columbia Railway Company	(44.7)	(10.0)	12.0
	43.0	370.0	512.0
Economic Development:			
British Columbia Development Corporation	20.0	143.0	135.0
British Columbia Ferry Corporation	43.2	—	15.0
British Columbia Housing and Employment Development Financing Authority	—	20.0	—
British Columbia Place	34.4	51.0	33.0
British Columbia Transit	428.8	120.0	74.0
Expo 86 Corporation	68.7	(235.0)	(51.8)
Greater Vancouver Sewerage and Drainage District	—	30.0	60.0
Greater Vancouver Water District	—	20.0	20.0
Other[4]	9.2	(4.0)	0.7
	604.3	145.0	285.9
Social and Government Services:			
British Columbia Assessment Authority	(0.1)	—	—
British Columbia Buildings Corporation	15.5	51.0	119.0
British Columbia Educational Institutions Capital Financing Authority	12.5	19.6	12.0
British Columbia Regional Hospital Districts Financing Authority	14.0	50.0	70.0
British Columbia School Districts Capital Financing Authority	16.2	42.7	45.0
British Columbia Systems Corporation	2.0	21.0	4.0
School Districts, Colleges and Universities[5]	33.8	33.7	—
Improvement Districts	1.3	0.3	1.0
	95.2	218.3	251.0
Total Crown Corporation Borrowing	742.5	733.3	1,048.9
TOTAL BORROWING REQUIREMENTS	1,698.2	2,001.2	1,959.3
SOURCES OF FUNDS:			
Canada Pension Plan Investment Fund	185.3	226.1	395.3
Trusteed Funds	529.1		
Private Issues	358.8	1,775.1	1,564.0
Public Issues	625.0		
TOTAL SOURCES OF FUNDS	1,698.2	2,001.2	1,959.3

[1] Includes borrowing and lease transactions to meet current financial requirements and borrowing to meet debt repayments and sinking fund contributions.

[2] Excludes amounts borrowed by the government and loaned to Crown corporations on identical terms. These amounts are included with Crown corporation borrowing.

[3] Amounts in parentheses represent net reductions in short-term debt.

[4] Includes W.L.C. Developments Ltd. and British Columbia Steamship Company (1975) Ltd.

[5] Includes funding for the University of British Columbia and Simon Fraser University, as well as short-term interim capital construction financing obtained under the Certificate of Approval Program.

Government and Crown corporation gross borrowing is estimated to total $1,959 million during 1987/88, down 2.1 per cent from the previous year and up 15.4 per cent from 1985/86.

Gross borrowing for government purposes, estimated at $910 million for 1987/88, is expected to decline by 28.2 per cent from 1986/87. After deducting scheduled debt repayments and increases in sinking fund balances, net borrowing to meet the government's financial requirements for 1987/88 is estimated at $825 million.

Gross borrowing for Crown corporations and agencies is estimated at $1,049 million for 1987/88, an increase of 43.0 per cent from the previous year. The year over year increase is mainly caused by higher gross borrowing requirements for the British Columbia Hydro and Power Authority in 1987/88 and the large repayment of Expo 86 Corporation debt in 1986/87. During 1987/88 total gross borrowing requirements of Crown corporations are expected to slightly exceed debt repayments and increases in sinking fund balances, estimated at $953 million. As a result, Crown corporation debt is expected to be 0.7 per cent higher at March 31, 1988 than at March 31, 1987.

Further details of government and Crown corporation borrowing are provided in Appendix F: Provincial Government and Crown Corporation Financing.

GLOSSARY OF TERMS[1]

Assets — are financial claims of the government upon outside parties and items held for resale. Specific assets include cash and temporary investments, accounts receivable, investments in and amounts due from Crown corporations and agencies, inventories, loans advances and mortgages receivable, fiscal agency loans to Crown corporations and other assets. Fixed assets such as buildings, roads and bridges, furniture and most Crown land are reported at a nominal value of $1.

Cash and Temporary Investments — include investments and short-term interest-bearing deposits held to meet the day-to-day obligations of the government.

Consolidated Revenue Fund — consists of the General Fund and Special Funds. The General Fund comprises the main operating accounts of the government. Special Funds represent earmarked revenues and funds set aside from the General Fund for specific purposes.

Deferred Revenue — consists of amounts received prior to a year-end that will be earned and recorded as revenue in future years.

Direct Debt for Government Purposes — consists of funds borrowed by the government to meet its financial requirements or to facilitate cash management.

Expenditure — consists of the obligations incurred by the government for goods, services and grants during the fiscal year. Under the modified accrual accounting policy of the government, expenditure is recorded when the expense is incurred rather than when a cash payment is made.

Financing Transactions — are transactions which affect the composition of assets and liabilities but are not considered to be revenue or expenditure and therefore do not affect net equity (net deficiency). For example, the Provincial Home Acquisition Special Account provides mortgage loans to home owners. When a loan is issued, the cash balances of the government are reduced while mortgage assets are increased. When the home owner repays the mortgage principal, cash balances are increased and mortgage assets are decreased.

Fiscal Agency Debt on Behalf of Crown Corporations — consists of funds borrowed by the government which are reloaned to Crown corporations under the authority of the *Financial Administration Act*. Crown corporations are responsible for the debt servicing costs and repayments of principal for debt borrowed on their behalf by the government.

Fiscal Agency Loans to Crown Corporations — are assets of the government, being loans made with funds borrowed directly by the government for that purpose in accordance with the provisions of the *Financial Administration Act*. The liability arising from government borrowing on behalf of Crown corporations is matched by the assets created when the funds are loaned to Crown corporations.

Guaranteed Debt — consists of borrowings by government enterprises, local governments or others, for which the principal, premium, if any, and interest are guaranteed by the government. Funds borrowed by the government and reloaned to Crown corporations are not considered guaranteed debt.

Liabilities — are claims payable by the government to outside parties, including accounts payable for goods, services and grants, amounts due to Crown corporations and agencies, deferred revenue, direct debt for government purposes and fiscal agency debt on behalf of Crown corporations.

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[1] Further information regarding the terms used in the government's financial statements is available in the Public Accounts.

Net Equity (Net Deficiency) — net equity is the excess of financial assets over financial liabilities of the government at a specific date. A negative amount for net equity is referred to as net deficiency, and indicates that financial liabilities exceed financial assets. The surplus (deficit) for a particular accounting period causes a corresponding increase (decrease) in net equity.

Operating Transactions — include revenue and expenditure transactions of the government, reported in accordance with the modified accrual basis of accounting.

Other Assets — include certain deferred charges and prepaid program costs. The latter consists of payments disbursed prior to the year end for program costs that will be incurred and recorded as expenditure in future years.

Revenue — consists of money earned by the government from taxation, resource levies, the sale of goods and services, fees and licences, fines and penalties, interest, liquor distribution profits and contributions arising from agreements with other governments. Under the modified accrual accounting policy of the government, revenue is reported when earned rather than when received, with the exception of taxes on income and federal contributions for Established Programs Financing which, except in cases of known adjustments, are reported when received because of the uncertainty involved in their estimation.

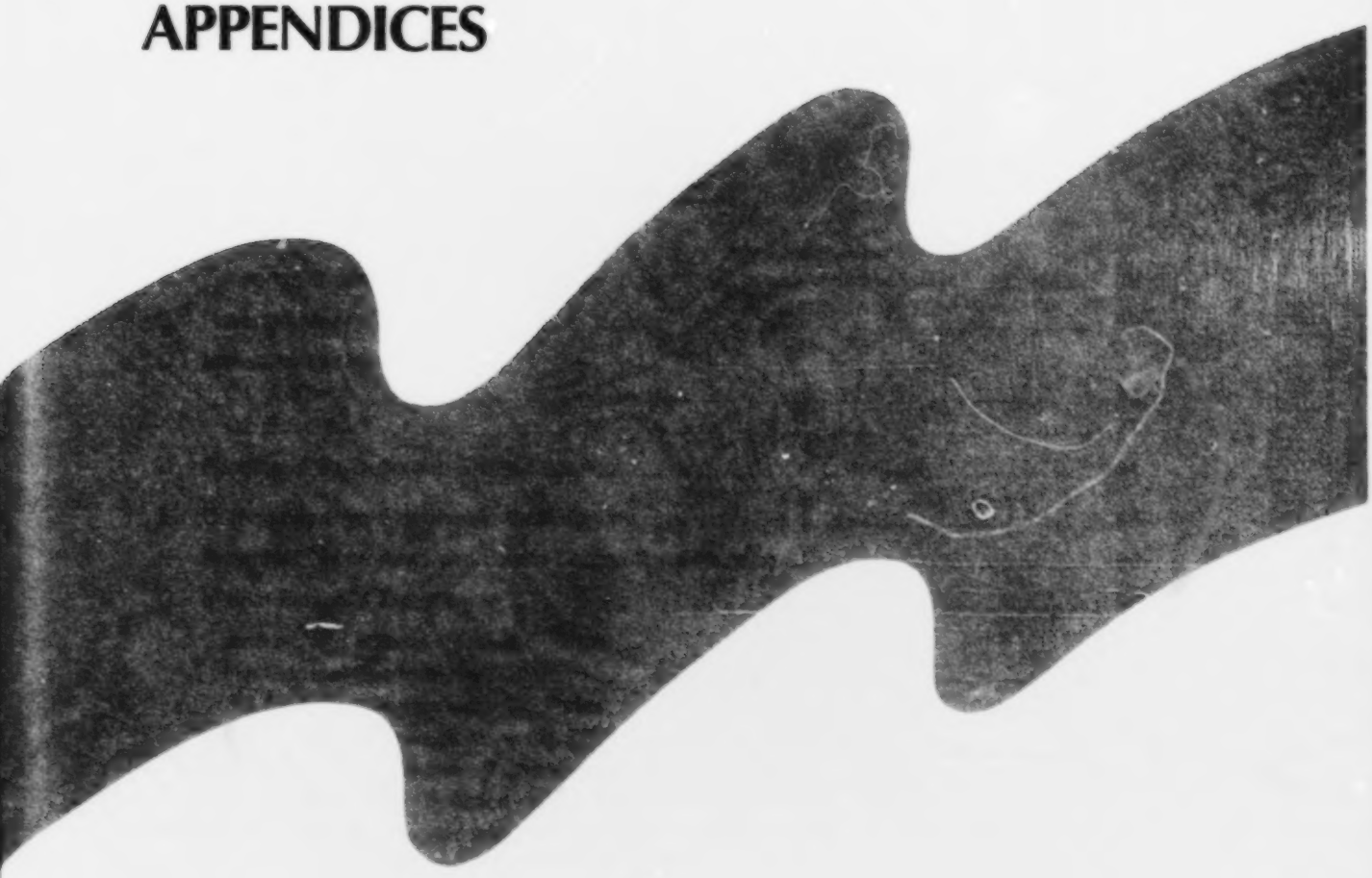
Surplus (deficit) — represents the excess of revenue over expenditure (expenditure over revenue) for a given period.

Trust Funds Under Administration — are funds held and administered by the government for third parties and not subject to appropriation by the Legislature. Included are trust deposits, superannuation and pension funds, sinking funds and miscellaneous trust funds.

Working Capital — consists of those assets and liabilities which are generally short-term in nature. Specifically, working capital is the sum of cash and temporary investments, investments in and amounts due from Crown corporations, accounts receivable and inventories less the sum of accounts payable, amounts due to Crown corporations and deferred revenue.

Working Capital Transactions — are changes to the working capital items.

APPENDICES



APPENDICES

		Page
A.	Economic Outlook for British Columbia	53
B.	Revenue Measures	59
C.	Investment in People	
	C1 JobTrac	73
	C2 Education	77
D.	Funding of Silviculture in British Columbia	81
E.	Community-Based Economic Development	85
F.	Provincial Government and Crown Corporation Financing	89
G.	Interim Financial Statements	95
H.	Economic and Financial Tables	
	H1 General Economic Indicators	97
	H2 Comparative Provincial Tax Rates	98
	H3 Financial Transactions — Consolidated Revenue Fund	99
	H4 Revenue by Source — Consolidated Revenue Fund	100
	H5 Expenditure by Function — Consolidated Revenue Fund	102
	H6 Direct Debt Outstanding for Government Purposes at December 31, 1986	103
	H7 Crown Corporation Debt Outstanding at December 31, 1986	104
	H8 Historical Government and Crown Corporation Net Debt Summary	105

A. Economic Outlook for British Columbia

Overview of 1986

In 1986, the British Columbia economy grew by an estimated 3.5 per cent, about the same rate as in 1985. Growth was strong in the first three quarters of the year but showed no increase in the fourth quarter due to the closing of Expo 86 and the effects of a 20-week strike in the lumber industry.

The impact of Expo 86 on economic activity was evident in the first three quarters of 1986. Last minute preparations for Expo and the opening of new tourist facilities caused an increase in employment early in the year, while the 22 million visitors to the fair provided a significant boost to the economy during the May to October period.

The positive effects of Expo were partly offset by the impact of the 20-week IWA strike, which shut down more than half of the province's lumber-producing capacity, reduced production during the strike period by about one-third from its 1985 level and contributed to declines in wages and salaries and retail sales in the final quarter of the year. The strike is estimated to have reduced real economic growth in the province by about one percentage point last year. Some of the lost production will be made up in 1987.

British Columbia felt the effects of rising United States protectionism in June when the U.S. government imposed a 35 per cent tariff on Canadian exports of cedar shakes and shingles. Then in October the U.S. International Trade Commission made a preliminary determination of subsidy on Canadian softwood lumber imports. This matter was eventually resolved when Canada agreed to impose a 15 per cent export tax on lumber shipments to the United States. So far these measures have not significantly affected British Columbia, as strong housing and lumber markets have allowed producers to pass most of the cost of the tariff and the export tax on to U.S. consumers through higher prices. The longer-term effects will be more severe; already there are indications that higher prices for shakes and shingles are encouraging substitution to other products, while British Columbia's softwood lumber industry will be more vulnerable in the future to any fall in demand.

Employment growth was the highest since 1981, up 46,000, or 3.7 per cent, from 1985. On an industry basis, all of the growth occurred in the service sector where employment increased 56,000; on a regional basis, most of the growth occurred in Vancouver where employment rose by 42,000. The labour force grew 1.8 per cent in 1986, also its largest increase since 1981. The provincial unemployment rate fell to 12.6 per cent from 14.2 per cent in 1985.

Despite strong employment growth for the year, total personal income increased only 4.0 per cent, while average weekly earnings rose only 0.6 per cent, reflecting lower-than-average wages for some of the newly-created jobs and a reduction in average incomes in the forest industry due to the strike. Retail sales grew 7.1 per cent, or more than 3½ per cent after removing the effects of inflation, reflecting the impact of both increased tourist activity and a reduction in personal savings within the province. Housing starts rose 15.1 per cent to 20,687, with most of the increase occurring in the Lower Mainland.

Exploration and production in the oil and natural gas industry were adversely affected by the sharp drop in oil prices early in 1986. British Columbia Hydro's electricity exports were also affected by strong competition from lower-priced oil and natural gas.

Lumber prices increased significantly in 1986 due to higher housing starts in the United States, the lumber industry shutdown and uncertainty surrounding the countervailing duty case. Prices for pulp and newsprint also increased during the year. The list price of pulp has risen from U.S.$425/tonne at the beginning of 1986 to U.S.$550/tonne on January 1, 1987. The behaviour of mineral prices was mixed, with gold, zinc and aluminum experiencing increases and silver and copper showing declines. The continuing oversupply of coal and weakness in the Japanese market caused downward pressure on prices during the year.

Manufacturing shipments showed the effects of both Expo 86 and the forest strike. While total shipments increased 7.9 per cent last year, shipments were strongest in the first eight months of the year, when they were up 11.8 per cent from the same period in 1985. For the full year, wood industry shipments rose 5 per cent, paper and allied industry shipments were up 15.8 per cent and food shipments jumped 18.5 per cent, mainly because of the influx of tourists.

Corporate financial positions improved during the year as higher corporate profits were used to reduce debt levels. Recent revisions to Statistics Canada's public and private investment survey indicate that investment growth in 1985 was much higher than previously estimated, and that investment declined in 1986.

For the fifth consecutive year inflation in the province remained below the national average. The Vancouver Consumer Price Index (CPI) increased 3.3 per cent and the Victoria CPI increased 1.9 per cent, while the Canadian index increased 4.2 per cent.

Wage settlements in British Columbia averaged 1.5 per cent in 1986, down from 2.0 per cent in 1985. Public sector increases were 2.2 per cent, compared to private sector increases of 0.9 per cent.

The External Environment

The United States economy grew by 2.5 per cent in 1986, virtually the same growth rate as recorded in 1985, as increases in consumption, government spending and residential construction more than offset weakness in non-residential investment and the export sector. Housing starts increased 3.7 per cent to 1.8 million, the best performance since 1978.

Real gross national product in the United States is expected to increase 2.8 per cent in 1987 and 3.0 per cent in 1988. Housing starts are forecast to total 1.75 million in 1987 and 1.7 million in 1988.

Economic growth in Japan in 1986 was only 2 to 2¼ per cent as export volumes dropped significantly in response to the sharp appreciation in the value of the yen. Industrial production declined slightly in 1986 and manufacturing firms reduced investment and laid off staff. The Japanese unemployment rate hit a 34-year high of 3 per cent in January 1987. Growth is expected to remain around 2 per cent in 1987 and unemployment is expected to increase.

West Germany's economy grew by an estimated 2.5 per cent in 1986. While the West German government strongly resisted American pressure to lower interest rates due to fears of rekindling inflation, the overall price level actually declined in 1986. Growth is expected to be in the 2½ to 3 per cent range in 1987, about the same as the 2½ per cent growth rate for Western Europe as a whole.

Canadian real GDP increased 3.1 per cent in 1986, down from 4 per cent in 1985, but still the largest increase among the major industrial countries. Most of this growth occurred in the consumer sector and residential construction, as housing starts totalled 200,000, the highest level since 1978. Investment spending weakened during the year due to the impact of lower oil prices on the oil and gas industry. The trade surplus declined from 1985.

The weakness experienced in Canadian economic activity in the second half of 1986 is likely to continue into the first half of this year. The Canadian economy is forecast to grow 2½ per cent in 1987 and 1988.

British Columbia Outlook

The British Columbia economy is expected to grow 1½ per cent this year, as the pace of growth continues to be affected by developments in 1986. An increase to 2½ per cent growth is forecast for 1988. The unusually strong growth in the tourist industry due to Expo 86 means that activity in that industry will probably decline in 1987. In contrast, growth in the wood products industry will increase due to a return to normal levels of activity following the IWA strike.

Average employment is expected to rise only 0.5 per cent between 1986 and 1987. In contrast to 1986, employment growth in the service sector is expected to be weak. Although labour force growth will be slower than in 1986, the average unemployment rate is forecast to remain in the 13 per cent range.

Personal income growth is expected to be stronger than in 1986, when aggregate wage and salary income was reduced by the IWA strike. Retail sales growth should be less robust than in 1986 due to the decline in tourist spending.

There are indications of a turnaround in business investment spending this year. Surveys conducted by the federal Department of Regional Industrial Expansion and Statistics Canada indicate planned increases in investment spending in British Columbia in the 4½ to 5 per cent range in

1987. Recently, several large forest-product companies have announced plans to upgrade or expand their production facilities. Many firms have reported significant improvements in profits and cash flow due to lower interest rates, reduced debt loads and lower fixed taxes. A 5.0 per cent increase in total investment is forecast for 1987 with business investment growth exceeding the increase in housing and public sector investment. Housing starts are projected at 20,000, down slightly from 1986, because of relatively slow employment and income growth.

Inflation, as measured by the change in the Vancouver CPI, should remain below the Canadian rate again this year, because of lower wage settlements and slower economic growth in British Columbia. The Vancouver CPI is expected to increase 3.0 per cent, down from 3.3 per cent in 1986, due to lower price increases following Expo and the effect of the reduction in the social service tax rate.

Economic activity in goods-producing industries should increase by just over two per cent this year primarily due to a recovery in the wood-products industry following the IWA strike and continued strong growth in paper and allied industries.

Service industries are expected to grow by less than one per cent, with finance, insurance and real estate and public administration exhibiting the largest increases. In the aftermath of Expo 86, a slight decline is expected in community, business and personal services (which includes hotels, restaurants and other tourist facilities) while retail and wholesale trade should be almost unchanged.

Risks to the Forecast

As usual, there are a number of potential risks and positive developments that could affect the economic outlook and, indirectly, the government's finances.

As the 1986 experience shows, the main risks involve further protectionist actions by the United States against British Columbia's natural resource exports. In addition, the tariff on shakes and shingles and the 15 per cent tax on lumber exports threaten British Columbia producers if prices fall significantly.

There is also the possibility that United States policies could force world interest rates up and depress economic growth. Although there are no indications that a recession is imminent, the fact that the present United States expansion is the second longest since World War II automatically raises questions about how much longer it will run.

On the positive side, providing the world economy is not weaker than expected and interest rates remain near current levels, housing starts and business investment could well be higher than forecast. "Affordability" measures show that home ownership is within the reach of a much larger number of people than in recent years. Similarly, low interest rates and the improved tax climate could result in more business investment than is forecast.

Conclusion

The outlook for the British Columbia economy suggests continued growth for the next two years. The rate of growth is expected to be modest in 1987 and somewhat stronger in 1988.

Table A1

British Columbia Economic Indicators

	1985	1986	1987[f]	1988[f]
Gross Domestic Product ($ million)	53,122	56,947[e]	59,852	63,502
(percentage change)	6.3	7.2	5.1	6.1
Real Gross Domestic Product (millions of constant 1971 dollars)	16,814	17,402[e]	17,663	18,105
(percentage change)	3.6	3.5	1.5	2.5
Capital Investment ($ million)	10,192[*]	9,356	9,824	10,678
(percentage change)	—	−8.2	5.0	8.7
Housing Starts (units)	17,969	20,687	20,000	23,100
(percentage change)	11.1	15.1	−3.3	15.5
Retail Sales ($ million)	14,304	15,323	16,135	16,991
(percentage change)	10.0	7.1	5.3	5.3
Vancouver Consumer Price Index (1981 = 100)	125.2	129.3	133.2	137.8
(percentage change)	3.2	3.3	3.0	3.5
Population 15 and Over (thousands)	2,226	2,239	2,266	2,295
(percentage change)	1.0	0.6	1.2	1.3
Labour Force (thousands)	1,431	1,457	1,473	1,489
(percentage change)	1.5	1.8	1.1	1.1
Employment (thousands)	1,228	1,274	1,280	1,306
(percentage change)	2.2	3.7	0.5	2.0
Unemployment Rate (per cent)	14.2	12.6	13.1	12.3
Other Forecasts of Real Gross Domestic Product		percentage change		
Conference Board of Canada (December 1987)		3.4	1.6	2.7
Royal Bank of Canada (December 1986)		3.2	2.4	2.5
Bank of Nova Scotia (January 1987)		3.3	1.6	n.a.
British Columbia Central Credit Union (November 1986)		3.6	1.0	n.a.

[e] Ministry of Finance and Corporate Relations estimate.
[f] forecast.
[*] Not comparable with preceding years because of changes in Statistics Canada methodology.

B. Revenue Measures

B1: SUMMARY OF REVENUE MEASURES

	Effective Date	Revenue Effects 1987/88	1988/89
		($ millions)	
Assessment Act			
Farm revenue threshold in the definition of *bona fide* farmer increased from $1,600 to $5,000 per year	July 1, 1988	—	+2.0[1]
Preferential tax rate for seasonal resort properties eliminated	September 30, 1988	—	+0.5[1]
Taxation of leasehold water lots re-established	September 30, 1987	+0.6	+2.2[1]
Corporation Capital Tax Act			
All banks and trust companies with paid-up capital in excess of $500 million subject to tax; provincial income tax paid to be deductible from tax	April 1, 1987	−6.0	−7.0
Education (Interim) Finance Act			
Ratio of school tax rates on utilities property to those on residential property reduced from 3.5:1 to 2.5:1	January 1, 1987	−15.0	−15.0
Home Owner Grant Act			
Minimum property tax increased from $200 to $350 for those receiving the basic home owner grant and from $1 to $100 for those receiving the supplementary home owner grant	January 1, 1987	+16.0	+17.0
Hotel Room Tax Act			
Tax rate increased from 7 per cent to 8 per cent	March 20, 1987	+4.5	+5.0
Income Tax Act			
Personal income surtaxes eliminated and the personal tax rate increased to 51.5 per cent of basic federal tax	January 1, 1987	+184.0	+195.0
Corporate tax rate for small businesses increased from 8 per cent to 11 per cent	July 1, 1987	+25.0	+37.0
Insurance (Motor Vehicle) Act			
Exemption for ICBC from insurance premium tax eliminated	April 1, 1987	+25.0	+27.0

B1: SUMMARY OF REVENUE MEASURES *(Continued)*

	Effective Date	Revenue Effects 1987/88	1988/89
		($ millions)	
Insurance Premium Tax Act			
Exemption for British Columbia headquartered companies repealed	January 1, 1987	+4.0	+5.0
Motor Fuel Tax Act			
Tax on leaded fuel increased by 2¢ per litre	April 1, 1987	+37.0	+30.0
Tax on gasohol reduced by 2¢ per litre	To be determined	−3.0	−4.0
Regional transit levy increased to 2.5¢ per litre	April 1, 1987	—[2]	—[2]
Property Purchase Tax Act			
Ad valorem land registration fees replaced by a property purchase tax, imposed at a rate of 1 per cent on the first $200,000 of value conveyed and 2 per cent on value conveyed in excess of $200,000	March 23, 1987	+140.0	+150.0
Social Service Tax Act			
Tax rate reduced from 7 per cent to:			
• 6 per cent	March 20, 1987	−236.0	−260.0
• 5 per cent	To be determined	*	−260.0
Exemption or refund provided in cases of repossessions, sale and leaseback arrangements and purchases of claiming horses, when items are re-acquired by a previous owner	March 20, 1987	−1.2	−1.4
Exemptions extended to knitting yarn and natural fibres, moth traps, fruit tree weights, prefabricated cattle and hog flooring slats, aeration equipment, and high visibility safety vests and bibs	March 20, 1987	−1.0	−1.0
Exemptions provided to the mining industry for grinding media, drill bits and explosives, including related blasting materials and equipment	March 20, 1987	−10.0	−11.0
Restaurant meals exempted	March 20, 1987	−21.0	−23.0
Exemption for leases under one month eliminated	March 20, 1987	+4.0	+4.5
Out-of-province television marketing companies required to collect British Columbia tax	To be determined	+2.0	+5.0
Taxation (Rural Area) Act			
Tax rate increased from $1.40 to $1.70 per $1,000 of assessed value	January 1, 1988	+0.9	+3.1

B1: SUMMARY OF REVENUE MEASURES *(Continued)*

	Effective Date	Revenue Effects 1987/88	1988/89
		($ millions)	
Various Fees, Licences and Fines			
Ministry of Transportation and Highways fees increased	Various	+16.0	+17.0
Other fees, licences and fines increased	Various	+19.2	+21.0
TOTAL:		**+185.0**[3]	**−61.1**
Allocation of Revenue Measures:			
Revenue Impact, Consolidated Revenue Fund		+183.4	−64.7
Expenditure Increase (−) or Decrease (+), Non-residential School Property Tax and Home Owner Grant		+1.6	+3.6
TOTAL:		**+185.0**[3]	**−61.1**

* There will be a revenue effect in 1987/88 when the tax rate is reduced but the amount has not been identified.
[1] Provincial revenue effect only.
[2] Not provincial revenue. Additional municipal revenue of $23 million per year will be used to fund transit services.
[3] Does not include revenue decrease arising from reduction of social service tax rate to 5%.

B1: REVENUE MEASURES SUPPLEMENTARY INFORMATION

Assessment Act

Farm Revenue Threshold Increase

The farm revenue threshold in the definition of *bona fide* farmer, which is used to qualify farmers for advantageous property tax, social service tax and motor fuel tax treatment, is currently set at $1,600 per year. Effective July 1, 1988, for taxation in 1989, this threshold will be increased to $5,000 per year.

Seasonal Resort Tax Preference Elimination

Effective September 30, 1988, for taxation in 1989, the preferential tax treatment of seasonal resort properties will be eliminated. Seasonal resorts will be taxed in the same way as other commercial properties.

Water Lots Made Assessable

Effective September 30, 1987, for taxation in 1988, water lots held under licence or lease will be assessable and taxable.

Corporation Capital Tax Act

As a result of changes made in 1985, only large banks with head offices outside of British Columbia would have been subject to the corporation capital tax after March 31, 1987. Effective April 1, 1987, all banks and trust companies with taxable paid-up capital in excess of $500 million will be subject to the tax.

Also effective April 1, 1987, an additional deduction from corporation capital tax payable will be allowed in respect of British Columbia income tax paid by the corporation. This has the effect of making the corporation capital tax a minimum tax for large deposit-taking financial institutions.

Education (Interim) Finance Act

Effective for the 1987 taxation year the ratio of the general non-residential school tax rate on the utilities property class to the prevailing average residential school tax rate will be reduced from 3.5:1 for 1986 to 2.5:1 for 1987. In most school districts, the rate will be reduced from $18.57 to $16.00 per $1,000 of assessed value. This reduction will not affect provincial grants to school districts.

Home Owner Grant Act

Effective January 1, 1987, the minimum property tax payable by home owners who receive the basic home owner grant is increased from $200 to $350. For those who receive the supplementary home owner grant, the minimum property tax is increased from $1 to $100.

Hotel Room Tax Act

The hotel room tax rate will be increased from 7 per cent to 8 per cent, effective March 20, 1987. Provision will also be made for local governments, upon application, to impose an additional rate of 2 per cent to raise funds for tourism and convention purposes.

Income Tax Act

Personal Income Tax Rate Increase

The rate of personal income tax for the 1987 taxation year will be increased to 51.5 per cent from 44 per cent of basic federal tax and the health care maintenance surtax and high income surtax will be eliminated. The effects of these changes on taxpayers and on marginal income tax rates are described in Appendix B3 of this document.

Small Business Corporate Income Tax Rate Increase

Effective July 1, 1987, the rate of tax on the first $200,000 of active business income for Canadian-controlled private corporations will be increased from 8 per cent to 11 per cent. This increase is designed to ensure that the overall tax burden is equivalent regardless of whether income is received as salary or as dividends from a small business corporation. At a lower tax rate, the tax burden on income received as dividends would be significantly lower, providing an opportunity to reduce taxes simply through incorporation.

Insurance (Motor Vehicle) Act

The Insurance Corporation of British Columbia (ICBC) will become subject to the insurance premium tax effective April 1, 1987.

Insurance Premium Tax Act

Effective January 1, 1987, as announced by the Minister of Finance and Corporate Relations on November 26, 1986, the exemption for British Columbia headquartered insurance companies will be repealed. The exemption was enacted in 1986 and had been scheduled to take effect January 1, 1987.

Motor Fuel Tax Act

Leaded Fuel Tax Increase

In order to reduce the incentive to use leaded fuel in vehicles designed for unleaded fuel, the tax on leaded fuel will be increased by 2¢ per litre, effective April 1, 1987. It is expected that fuel retailers will respond by equalizing the price of leaded and unleaded fuel.

Gasohol Fuel Tax Decrease

Gasohol is gasoline blended with ethanol distilled from surplus grain or other vegetable matter. If a facility to produce ethanol in this way is established in British Columbia, the tax on gasohol will be reduced by 2¢ per litre to encourage use of the product. A sunset clause will automatically repeal this provision effective April 1, 1992.

Transit Levy Increase

At the request of the Vancouver Regional Transit Commission, the transit levy will be increased, effective April 1, 1987, to 2.5¢ per litre from .95¢ per litre for motor fuel sold in the Greater Vancouver area. The revenue raised by this tax is used to fund part of the municipal share of transit costs in Greater Vancouver, and is not revenue of the provincial government.

Property Purchase Tax Act

The *ad valorem* component of land registration fees, which applies to the registration of conveyances and to the registration of charges, will be replaced effective March 23, 1987 with a property purchase tax. The tax will apply to the fair market value of conveyances. The rate of tax will be 1 per cent on the first $200,000 of value conveyed and 2 per cent on the balance in excess of $200,000. Appendix B4 of this document provides additional detail.

Social Service Tax Act

Tax Rate Reduced

Effective March 20, 1987, the social service tax rate will be reduced from 7 per cent to 6 per cent. A further reduction to 5 per cent will be made later in the 1987/88 fiscal year. In both cases, transition provisions will allow for tangible personal property, ordered before the effective date of the tax decrease but delivered after that date, to be taxed at the lower rate.

Elimination of Multiple Taxation

Effective March 20, 1987, an exemption from social service tax will be provided when a previous owner re-acquires tangible personal property (TPP) through a repossession and for arrangements in which TPP is sold and then immediately leased back by the previous owner. This will prevent multiple taxation in cases where there is no real change in effective ownership.

Also effective March 20, 1987, when a horse is re-acquired by a previous owner in a claiming race, a refund of social service tax equal to either the amount of tax paid or amount of tax paid on the previous purchase, whichever is less, will be available.

New Specific-Use Exemptions and Refunds

Effective March 20, 1987, the following items will be exempt:

- yarn and natural fibres used to make or repair clothes;
- moth traps, fruit tree weights and prefabricated cattle and hog flooring slats when purchased by a *bona fide* farmer for use on a farm;
- aeration equipment when purchased by a *bona fide* aquaculturist; and,
- safety vests and bibs designed to enhance the visibility of the wearer.

Also effective March 20, 1987, the following changes will benefit the mining industry:

- grinding media used to extract minerals from ore will be exempt;
- drill bits used in mineral exploration, mine development or mineral extraction will be exempt; and,
- refunds will be available for tax paid on the purchase of explosives, and related blasting material and equipment used for mineral exploration, mine development and mineral extraction.

Restaurant Meals Exempted

Since July 8, 1983, prepared meals with a value of $7 or more have been subject to 7 per cent tax. Effective March 20, 1987, social service tax will no longer be levied on these meals.

Leases Under One Month Subject to Tax

Currently, TPP (except motor vehicles) that is rented or leased for less than one month is not subject to tax on the lease price. Effective March 20, 1987, tax will be collected on the lease price of all leased TPP, regardless of the term of the lease.

Out-of-Province Television Marketing Companies Required to Collect Tax

Television marketing refers to the sale of goods through a dedicated cable television channel which is used to advertise a television marketing company's products. The major television marketing companies are located outside British Columbia. When an item is delivered in British Columbia from an out-of-province company, purchasers are legally liable to remit social service tax, but few comply. Effective on proclamation of the legislative amendment, television marketing companies will be required to collect and remit British Columbia social service tax on sales to residents of British Columbia as a condition of using cable television to broadcast in British Columbia.

Taxation (Rural Area) Act

The rate of property tax applied to residential and recreational property in rural areas will be increased from $1.40 to $1.70 per $1,000 of assessed value, effective for the 1988 taxation year.

Various Fees, Licences and Fines

Ministry of Transportation and Highways Fee Increases

A number of fees and licences will be increased during the fiscal year, including five-year drivers' licence fees, driver examination fees and vehicle licence fees.

Other Fee, Licence and Fine Increases

Other fees, licences and fines that will be increased during the fiscal year include fines for moving motor vehicle violations, court service fees, various *Wildlife Act* fees and licences, campsite fees and the fixed component of land registry fees.

B2: SUMMARY OF ADMINISTRATIVE MEASURES

	Effective Date
Assessment and Property Taxation Amendment Act	
Exemption for pollution control property clarified	September 30, 1987
Assessment Act distinction between physical and market conditions clarified	September 30, 1987
Hotel Room Tax Act	
Maximum commission increased to $90 per month from $85 per month	April 1, 1987
Motor Fuel Tax Act	
Marine bunker fuel and, with certain exceptions, natural gas used in stationary engines taxed at 7 per cent of actual purchase price	April 1, 1987
Commissions paid to persons collecting motor fuel tax limited to a maximum of $10,000 per year	April 1, 1987
Date for motive fuel users to remit tax changed from the 15th to the 20th of the month	March 20, 1987
Industrial machines defined and permitted to use coloured fuel when used off highway	March 20, 1987
Logging trucks and trucks used for transporting minerals permitted to use coloured fuel on highway in certain circumstances	March 20, 1987
Taxation of locomotive fuel used in the province clarified	March 20, 1987
Social Service Tax Act	
Definition of promotional distribution clarified	March 20, 1987
Relief provisions available for transfer of tangible personal property among "closely-related" persons modernized (Regulation 3-14)	To be determined
Property purchased or leased exempt from tax by an Indian or band on a reserve to become taxable if subsequently used off the reserve	Royal Assent
Vendors and lessors to remit tax on the 15th instead of the 20th of the month	April 1, 1987
Maximum commission increased from $85 to $90 per month	April 1, 1987
Definition of vendor clarified to include receivers, liquidators, etc.	March 20, 1987
Direct agent and catalyst defined and the exemption for these items clarified	March 20, 1987
Definition of lease clarified	March 20, 1987
Exemption for grinding wheels and discs clarified	March 20, 1987

B2: ADMINISTRATIVE MEASURES SUPPLEMENTARY INFORMATION

Assessment and Property Taxation Amendment Act

Pollution Control Exemptions

Effective for the September 30, 1987 assessment roll, the definition of pollution control property will be amended to more clearly describe those properties which are exempt from taxation.

Assessment Act Distinction Between Physical and Market Conditions

The *Assessment Act* distinguishes between physical and market conditions for valuation purposes. Effective September 30, 1987, the Act will be amended to make it clear that changes in building occupancy are market changes and not physical changes.

Hotel Room Tax Act

The maximum commission paid to hotel operators for collecting revenue on behalf of the government will be raised from $85 to $90 per month. The commission is equal to 3 per cent of tax collected up to the maximum.

Motor Fuel Tax Act

Taxation of Marine Bunker Fuel and Natural Gas

The tax on marine bunker fuel is currently indexed to changes in the price of marine bunker fuel and adjusted quarterly. Tax on natural gas used in stationary internal combustion engines is also adjusted quarterly but is indexed to the price of gasoline. Effective April 1, 1987, the taxation of marine bunker and, with certain exceptions, natural gas used in stationary engines will be changed to 7 per cent of the actual purchase price. Natural gas used to power vehicles remains exempt.

Limit on Commissions

Effective April 1, 1987, the maximum commissions available to motor fuel tax collectors will be limited to $10,000 per year. The rate of commission will continue to be equal to 0.022 cents per litre of fuel on which tax is remitted, up to the annual limit. There is currently no limit on commissions.

Remittance of Tax by Motive Fuel Users

Effective March 20, 1987, the date on which motive fuel users (e.g., inter-provincial truckers who import fuel into the province in the supply tanks of the trucks) are required to remit tax will be extended from the 15th to the 20th of each month. This is consistent with current administrative practice in British Columbia and other provinces.

Use of Coloured Fuel in Industrial Machines

An industrial machine will be defined in the Act and Regulations to include forklifts, front-end loaders, lumber carriers and other similar vehicles which are prescribed by regulation. Industrial machines will be permitted to use coloured fuel when operated off highway.

Coloured Fuel Used in Logging and Mineral Trucks

Effective March 20, 1987, off-highway logging trucks and trucks used for transporting minerals will be permitted to use coloured fuel when operated on highway under a temporary operating permit.

Taxation of Locomotive Fuel

Effective March 20, 1987, the taxable status of fuel brought into the province in the supply tank of a locomotive and used in the province is clarified.

Social Service Tax Act

Promotional Distribution Definition Clarified

Effective March 20, 1987, the definition of promotional distribution is amended to make it clear that material used to promote the sale of services and real property is taxable.

Relief for Transfers Between "Closely-Related" Persons

Relief for transfers of TPP between certain closely-related persons in certain circumstances has existed for some time (Regulation 3-14). A number of problems and inconsistencies with the provisions have been identified. Revised provisions will ensure more consistent treatment of closely-related parties.

Indian Exemption Clarified

Currently, if an Indian or band, as defined in the *Indian Act* (Canada), purchases or leases tangible personal property on a reserve, no tax is payable and the property may be used without restriction. Effective the day the *Social Service Tax Amendment Act, 1987* receives Royal Assent, property purchased tax exempt by an Indian or band will become taxable if it is subsequently used off the reserve.

Remittance of Tax by Vendors or Lessors

Vendors and lessors will be required to submit monthly returns and remit tax payable on the 15th of the month instead of the 20th. This change will take effect for the April 1987 returns submitted in May 1987.

Maximum Commission Increased

Currently, the commission for vendors and lessors collecting and remitting tax to the government is equal to 3 per cent of tax collected up to a maximum of $85 per month. Beginning with the April, 1987 returns, the maximum commission will be increased to $90 per month.

Definition of Vendor Clarified

Effective March 20, 1987, the definition of vendor will be clarified to ensure that receivers, liquidators and others involved in the business of disposing of assets are included. As a result, the obligation to collect tax on sales of tangible personal property will be clear.

Exemption for Direct Agents and Catalysts Clarified

Effective March 20, 1987, definitions for direct agent and catalyst will be added to the Act and the exemption for these items will be clarified. These changes will ensure that direct agents and catalysts are exempt only when they are used in a chemical reaction which is part of the process of manufacturing a product.

Definition of Lease Clarified

Effective March 20, 1987, the definition of a lease will be clarified. This will ensure that, when an owner of equipment contracts to perform services for another person and the equipment is operated by an independent contractor, it represents a use of the equipment and not a lease. The owner must therefore pay tax on the purchase price of the equipment rather than collecting and remitting tax on the payments received for the service.

Exemption for Grinding Wheels and Discs Clarified

Effective March 20, 1987, the regulation exempting grinding wheels and discs will be changed to clarify that the exemption does not extend to refiner plates and discs used in manufacturing pulp.

B3: BRITISH COLUMBIA PERSONAL INCOME TAX CHANGES

The 1987 Budget Changes

Prior to the 1987 budget, the British Columbia personal income tax system had three principal components:

- a tax rate of 44 per cent applied to basic federal tax;
- a Health Care Maintenance Surtax of 8 per cent on the provincial tax payable;
- a surtax for high income earners, calculated at 10 per cent of provincial tax payable (including the Health Care Maintenance Surtax) in excess of $3,500.

The result was a complex system which many taxpayers found difficult to understand.

The 1987 provincial budget greatly simplifies this system, eliminating the two surtaxes and establishing a single rate of 51.5 per cent to be applied to basic federal tax. This measure is expected to raise an additional $184 million in fiscal 1987/88. This will help offset the revenue loss to the province caused by the social service tax rate reduction.

As a result of this change, a typical married taxfiler with dependent spouse and two dependent children earning $35,000 ($22,300 taxable income) will pay an additional $165 in provincial tax per year. A single taxfiler earning $20,000 ($13,100 taxable income) will pay an additional $88 per year. The following table shows the effect of the tax change at various taxable income levels.

EFFECT OF BRITISH COLUMBIA PERSONAL INCOME TAX CHANGES

	1987 Provincial Tax Payable Prior to 1987 Budget Changes				1987 Provincial Tax Payable After Budget Changes ($)
Taxable Income ($)	Basic Tax ($)	Health Care Maintenance Surtax ($)	High Income Surtax ($)	Total Tax ($)	
10,000	708	57	0	765	829
20,000	1,595	128	0	1,723	1,866
30,000	2,661	213	0	2,874	3,115
40,000	3,828	306	63	4,197	4,481
50,000	5,148	412	206	5,766	6,026
60,000	6,468	517	349	7,334	7,571

The new rate will be effective for the full 1987 taxation year. Because it is being introduced part-way through this year, it will not be reflected in source deductions (the tax deducted by employers each pay period and remitted to Revenue Canada) until July 1, 1987, as provided for in the Canada-British Columbia Tax Collection Agreement. Source deductions in the six-month period July to December, 1987 will be adjusted to ensure that collections reflect the 51.5 per cent rate applied over the full 1987 calendar year.

Effective Provincial Tax Rates

The tax rate for provinces which participate in the federal-provincial joint tax collection system is expressed as a single rate applied to basic federal tax — the tax calculated by applying the federal rate structure to taxable income. This use of a single provincial rate can obscure the actual effect of the provincial tax. Applying the single provincial income tax rate at each income level to basic federal tax means that the provincial system automatically reflects the progressive federal rate structure. Therefore, effective provincial tax rates increase with the taxpayer's ability to pay.

The following table shows average British Columbia tax rates as a percentage of taxable income for 1987 and compares them with average federal tax rates. Because a 3 per cent surtax has been added to federal income tax, British Columbia average tax rates are equal to one-half of the federal rates.

FEDERAL AND BRITISH COLUMBIA AVERAGE INCOME TAX RATES
1987

Taxable Income ($)	Federal Tax as Percentage of Taxable Income (%)	British Columbia Tax as Percentage of Taxable Income (%)	Combined Tax as Percentage of Taxable Income (%)
1,000	6.2	3.1	9.3
5,000	14.3	7.1	21.4
10,000	16.6	8.3	24.9
20,000	18.7	9.3	28.0
30,000	20.8	10.4	31.2
40,000	22.4	11.2	33.6
50,000	24.1	12.1	36.2
60,000	25.2	12.6	37.8
70,000	26.4	13.2	39.6
80,000	27.5	13.8	41.3
90,000	28.4	14.2	42.6
100,000	29.0	14.5	43.5

Note: The effect of federal sales tax and child tax credits is not included; these reduce average income tax rates for taxfilers where family income is low.

Comparative Marginal Income Tax Rates

The concept of marginal income tax rates is helpful in understanding the impact of the tax system on the financial incentive to work more. The marginal rate is the percentage of tax payable on an additional dollar earned above a taxpayer's current income.

The following table compares marginal tax rate levels among Canadian provinces. In 1987, only one province will have a lower marginal tax rate than British Columbia for high income earners.

MAXIMUM MARGINAL PROVINCIAL INCOME TAX RATES IN CANADA
1987
(Percentage)

British Columbia — post-budget	17.5
— pre-budget	17.8
Alberta	14.8
Saskatchewan	20.0
Manitoba	22.0
Ontario	17.5
Quebec	27.2
New Brunswick	19.7
Nova Scotia	19.2
Prince Edward Island	17.9
Newfoundland	20.4

Notes: Federal income tax not included.

B4: PROPERTY PURCHASE TAX

The budget introduces a new provincial property purchase tax. In general, this tax will be levied on the fair market value of real property conveyances registered at Land Title Offices in British Columbia. The rate of tax will be 1 per cent on the first $200,000 of value conveyed, and 2 per cent on the value conveyed in excess of $200,000. *Ad valorem* land registration fees will be eliminated with the introduction of the new tax.

The proposed rate structure will result in over 95 per cent of transfers of single family homes being subject to a single, 1 per cent rate of tax. About 70 per cent of transfers of other types of real property will also be subject only to the lower, 1 per cent rate of tax.

The property purchase tax will come into effect March 23, 1987. A transitional provision will ensure that this new tax does not disrupt transactions already in progress.

The estimated revenue contribution of the property purchase tax in 1987/88 will be $168 million, compared to about $28 million that would have been generated from *ad valorem* land registration fees.

Exemptions

A number of transfers which are now subject to *ad valorem* land registration fees will be exempt from the property purchase tax. A major new exemption will be for real property transferred to a closely related family member, providing the real property is a principal residence, family farm, or family recreational property that does not exceed 5 hectares in area or have a fair market value in excess of $200,000.

Local governments will be exempt from this tax, and the transfer of real property to a charitable, religious or educational institution will also be exempt, providing the real property is to be used for a charitable, religious or educational purpose.

Special Transactions

In addition to the conveyance of a fee simple estate, the property purchase tax will apply to the conveyance of a life estate, certain leases, a right to occupy real property under an agreement for sale, a final order of foreclosure, and any similar instrument as prescribed in the legislation. The registration of mortgages, which are currently subject to *ad valorem* land registration fees, will not be subject to the property purchase tax.

C.1 Investment in People . . . JobTrac

Introduction

In recent years, the provincial government has taken major initiatives to stimulate business investment and job opportunities by reducing taxes for British Columbia businesses, through specific economic development projects and through Expo 86.

The government is now targeting additional resources at putting people into jobs, especially those who have difficulty getting a foothold in the labour market: youth, the disabled and, especially, the estimated 75,000 employable persons on Income Assistance.

The Strategy: JobTrac

In May, 1986 the government announced an employment and training initiative called JobTrac for "Job Training" and "Job Access". It provided $25 million in new funds as well as another $18 million under existing programs.

JobTrac helps get people into worthwhile jobs in the following ways:

- JobTrac provides a "road map" through provincial and federal programs and helps people find their way to the right program;
- JobTrac helps people on Income Assistance rejoin the labour force through job preparation, training and work experience programs; and
- JobTrac helps youth, unemployed persons, workers needing skills upgrading, and the disabled, through work experience programs and rehabilitation services.

From $43 million in 1986/87, funding for this provincial program will almost double to $81 million in 1987/88, and the number of jobs and persons assisted will increase significantly. The following programs are planned for 1987/88.

Improving Access to Programs

Government has simplified access to programs by training staff of ministries to be aware of programs offered by other ministries and by the federal government through Employment Canada offices. Brochures and advertisements have been prepared to assist both clients and employers. There have been two major innovations: one-stop service centres and the Working Network. A pilot one-stop centre has been opened in Prince George and at least two more will be opened in 1987/88. The Working Network will use the facilities of the Knowledge Network to link together employers, employment professionals and clients.

1986/87	1987/88
$1.1 million	**$1.4 million**

Jobs and Training for Persons on Income Assistance

The Opportunities to Independence Program in the Ministry of Social Services and Housing provides training in job search skills, work assessment and referral, and educational upgrading. Additional funding for silviculture training is provided by the Ministry of Advanced Education and Job Training.

1986/87	1987/88
$5.5 million	$12.6 million

Work experience with small businesses is provided through wage subsidies which assist small businesses to hire and train persons on Income Assistance. This work experience program is jointly administered by the Ministries of Advanced Education and Job Training and Social Services and Housing.

1986/87	1987/88
$2.0 million	$3.0 million

Under the Forestry JobTrac Program, persons on Income Assistance gain work experience while improving the resource base through silviculture and other projects managed by the Ministry of Forests and Lands.

1986/87	1987/88
$13.0 million	$17.0 million

The Environment JobTrac Program is a new program in the Ministry of Environment and Parks under which non-profit groups will hire persons on Income Assistance for special park and habitat conservation projects.

1986/87	1987/88
—	$2.0 million

The Community JobTrac Program is a new initiative in the Ministry of Tourism, Recreation and Culture, which will employ Income Assistance recipients in heritage, recreation and culture projects run by non-profit groups.

1986/87	1987/88
—	$20.0 million

Programs for Youth, the Unemployed and the Disabled

Under the Challenge 87 Program in the Ministry of Advanced Education and Job Training, youth will gain valuable work experience through wage subsidies which will encourage small businesses to hire and train young people.

1986/87	1987/88
$10.0 million	$10.0 million

Vocational rehabilitation services in the Ministry of Advanced Education and Job Training offer assessment, job counselling and placement of disabled persons.

1986/87	1987/88
$4.7 million	$6.5 million

Training, upgrading and work experience are provided for unemployed persons, apprentices, recent graduates and women in non-traditional jobs through a number of programs administered by the Ministry of Advanced Education and Job Training.

1986/87	1987/88
$6.7 million	**$8.2 million**

Federal-Provincial Cooperation

The provincial government has been working closely with the federal government in the delivery of employment and training programs. In 1986/87, British Columbia and Canada signed a three-year agreement on employment programs for Income Assistance recipients. The federal government agreed to provide matching funding of up to $15 million per year for this type of program.

The doubling in provincial funding for these programs in 1987/88 is made in the expectation that the federal government will also want to increase funding for its matching programs proportionately.

A Long Term Strategy

JobTrac work programs are intended to meet long-term economic objectives:

- JobTrac work programs include a training component to supplement the work experience and further improve the participants' prospects for long-term employment once the JobTrac project is finished.
- JobTrac projects will improve the province's long-term economic base. Silviculture projects improve our forest resource base and heritage projects under the Community JobTrac Program will improve our tourist potential as well as enrich our appreciation of local history.

C.2 Investment in People . . . Education

Introduction

The British Columbia education system encompasses public schools, independent schools, colleges, institutes, universities, a distance education system and a variety of private post-secondary institutions.

A diversity of educational styles is available at all levels, from kindergarten to post-graduate university studies.

Elementary and Secondary Schools

The public school system includes all grades from kindergarten to Grade 12, with free tuition. Kindergarten is available for children five years old in most school districts but is not compulsory. Public school attendance, or a satisfactory alternative, is compulsory for children between seven and fifteen years of age. The length of the school term normally is between 195 and 200 days per year.

The Ministry of Education provides overall management of the school system, while direct administration is provided by local boards of trustees in the 75 school districts. There are about 1,500 public schools in the province, including elementary schools, combination elementary/secondary schools and secondary schools. Total enrollment in September, 1986 was 486,221 students.

Public School Funding

Funding for public schools in British Columbia comes from three major sources: provincial contributions, non-residential property taxes collected by the provincial government on a province-wide basis and redistributed to school districts and residential property taxes collected by school districts. The provincial government sets a framework for the school system designed to ensure a basic equality in school programs across the province. This framework, which includes program standards and cost factors, defines what is called the "shareable budget". The provincial share varies from district to district but averages about 75 per cent.

Independent Schools

In addition to funding public schools, the provincial government makes contributions to partially fund about 170 independent schools with approximately 26,000 pupils.

Universities

There are three publicly funded universities in British Columbia: the University of British Columbia located in Vancouver, the University of Victoria located in Greater Victoria and Simon Fraser University located in Burnaby. These universities offer a wide range of courses in undergraduate, graduate and professional programs for approximately 35,000 full-time and 16,000 part-time students. Funding for universities is provided by the provincial government (approximately 80 per cent of the total), tuition fees (16 per cent) and other revenue (4 per cent).

Colleges and Institutes

British Columbia also has an extensive system of non-university post-secondary education providing academic, technical, vocational and career programs through 15 community colleges located throughout the province, and through 4 institutes including the Open Learning Institute which provides long distance education for students unable to attend other institutions. There are approximately 40,000 full-time and 35,000 part-time students enrolled at these institutions. Funding for colleges and institutes is provided by the provincial government (approximately 84 per cent of the total), tuition fees (13 per cent) and other revenue (3 per cent).

Major 1987/88 Funding Initiatives

In 1987/88, provincial expenditure on the educational system will increase by $153 million, or 7.9 per cent, not counting additional contributions of $45 million to offset reductions in non-residential property tax rates.

Ministry of Education

Total expenditure for the Ministry of Education, which is responsible for public and independent school funding, will increase $139.1 million or 11.3 per cent. Major increases are as follows.

Management operations funding has increased by approximately 9 per cent to cover increased costs of textbooks, correspondence education, program development and management services.

1986/87
$29.1 million

1987/88
$31.7 million

Contributions to public schools have been increased by $87.1 million, or 13.5 per cent, of which $44.8 million is to offset the reduction in non-residential property taxes due to a three-year phase-in of tax rate reductions. The remaining $42.3 million is the provincial share of increased operating budgets for school districts to meet inflation and other cost pressures.

1986/87
$645.3 million

1987/88
$732.4 million

Special project funding has increased by $28.3 million to fund special projects carried over from the 1986/87 school year and new special initiatives in 1987/88, including an oriental languages program.

1986/87
$12.0 million

1987/88
$40.3 million

Ministry operations in support of public schools, including the Child Abuse Prevention Program, equipment for the hearing impaired and examination development will receive an 11 per cent funding increase.

1986/87
$15.8 million

1987/88
$17.6 million

Combined expenditures for homeowner grants, the teachers' pension fund and schools debt service will increase by $7.0 million.

1986/87
$495.3 million

1987/88
$502.3 million

Contributions to independent schools will increase by over 40 per cent for enrollment and operating adjustments, increased provincial grants, a reduced waiting period for schools to qualify for provincial grants and Special Education initiatives.

1986/87	1987/88
$28.3 million	**$40.7 million**

Ministry of Advanced Education and Job Training

Total education-related expenditure of the Ministry of Advanced Education and Job Training, which is responsible for funding post-secondary institutions and student financial assistance, will increase by $59.0 million, or 8.3 per cent. Major increases are as follows.

The Administration and Support Services budget has not changed significantly from the previous year because of savings from consolidating responsibilities of the Universities Council within the ministry.

1986/87	1987/88
$17.1 million	**$17.4 million**

The Universities base budget is up significantly this year. The increase of 5.6 per cent will enable the universities to meet inflationary pressures and remain competitive in hiring and retaining top faculty. Additional funding will be available for Special Initiatives.

1986/87	1987/88
$330.2 million	**$348.6 million**

The Colleges and Institutes base budget will increase by 6.0 per cent. This will enable these institutions to meet inflationary pressures, accommodate increased enrollment and buy essential equipment. Additional funding will be available for Special Initiatives.

1986/87	1987/88
$325.9 million	**$345.5 million**

Basic funding for university-level Distance Education will increase by 4.6 per cent to meet inflationary pressures and support the development of new programming. Additional funding will be available for Special Initiatives.

1986/87	1987/88
$9.1 million	**$9.5 million**

Student financial assistance has been singled out for special attention. Base funding has been increased by more than 50 per cent and further funds may be allocated as Special Initiatives. New programs will address the problem of heavy debt loads faced by some students and will help students to help themselves by providing incentives for part-time and summer jobs.

1986/87	1987/88
$17.6 million	**$26.5 million**

To promote excellence in the post-secondary system, a gross amount of $27 million has been set aside for Special Initiatives, which may include new university centres of excellence, equipment and innovative teaching

approaches for colleges, institutes and the Distance Education system, and enhanced student financial assistance.

British Columbia has a first class education system with unique capabilities, such as distance learning. The Ministry of Advanced Education and Job Training has made the export of education services to other countries a high priority and expects $5 million in revenue to government as a result of sales of instructional and consultation services, offsetting the costs of some special projects.

1986/87
$10.7 million

1987/88
$22.0 million

Provincial Funding Strategy

A significant part of the government's appropriations for schools and post-secondary institutions will come from the Fund for Excellence in Education. The Fund was established in 1986 as a $600 million three-year special account through the *Education Excellence Appropriation Act.*

Institutions were promised that their base funding would be maintained and that incremental funding would be provided from the new account to encourage local initiative, improve the quality of service, respond to economic and population changes and increase productivity. This year the government will more than live up to its promise, as over $30 million has been added to education budgets, in addition to the allocations from the Fund for Excellence in Education.

In 1986/87, $110 million was allocated to schools, post-secondary institutions and student financial assistance from the Fund for Excellence in Education. The 1987/88 allocation will be $218.2 million, leaving $271.8 million to be made available for 1988/89.

Institutions have welcomed the multi-year funding approach. The government will review the impact of the three-year funding commitment with a view to developing options to continue a multi-year approach.

Summary

The increase in funding of $153 million for education this year demonstrates the government's commitment to a long-term investment in the province's young people.

D. Funding of Silviculture in British Columbia

Introduction

Forests cover more than half of British Columbia's total land area and sustain a wide range of recreational and commercial activities, including the province's large forest industry. Because more than 90 per cent of the forest land is owned by the province, proper government stewardship of this land is essential to the health of the forest industry and the continuing prosperity of the province. Silviculture is an integral component of this stewardship.

The provincial government is primarily responsible for initiating and financing silviculture on provincial Crown land. Silviculture activities fall into the following categories.

- **Basic Silviculture** — This provides for the restocking of recently denuded land to a free-growing state. Activities include surveys, site preparation, planting and brushing (removing brush).
- **Intensive Silviculture** — This has two components: restocking the backlog of land not satisfactorily restocked to a free-growing state; and increasing the merchantable quantity and value of timber in established stands. Activities include juvenile spacing (removing inferior and excess trees from young stands), conifer release (removing deciduous growth which may be retarding the growth of conifers), and fertilization.
- **Nursery Operations** — These produce seedlings for basic and intensive silviculture.
- **Seed Operations** — These provide seed for the nurseries.

In addition, the provincial and federal governments fund a substantial amount of research related to silviculture through a variety of agencies.

Silviculture Objectives

The 1986-1991 Five Year Forest and Range Resource Program establishes the goals of replanting a minimum of 60 per cent of recently denuded areas and reducing the backlog of medium-to-good growing sites that are not satisfactorily restocked.

To achieve these objectives the government has established the following targets:

- Planting 200 million seedlings by 1987/88 (covering about 162,000 hectares);
- Juvenile spacing of 18,000 hectares by 1988/89;
- Fertilizing 18,000 hectares by 1988/89;

- Conifer release on 3,000 hectares by 1988/89;
- Brushing of 43,700 hectares by 1989/90; and
- Obtaining 120 million genetically improved seedlings annually from seed orchards by 1995/96.

The 1987/88 planting target represents an increase of 170 per cent over the 74 million seedlings planted in 1980/81, before efforts commenced to eliminate the backlog of not satisfactorily restocked areas.

The targets with respect to juvenile spacing, conifer release and fertilization represent significant increases over activities in 1985/86 and the target for seed orchard production represents a six-fold increase over the 1986/87 level.

Silviculture Activities on Crown Land in British Columbia
1983/84 to 1987/88

	No. of Seedlings Planted	Site Prepar-ation	Brushing	Juvenile Spacing	Conifer Release	Fertili-zation
	(millions)	(000's of Hectares[1])				
1983/84	108.4	74.3	7.1	6.8	0.6	—
1984/85	116.0	91.0	16.5	5.6	0.2	—
1985/86	111.7	91.4	15.5	4.7	1.0	—
1986/87[2]	155.0	125.0	22.7	6.1	0.9	8.1
1987/88[3]	200.0	130.0	30.9	19.5	2.0	15.5

[1] Excludes activity under special training and employment programs.
[2] Estimate.
[3] Projection.

Funding

There are five main sources of funding for silviculture on provincial Crown land:

- Ministry Operations Vote;
- Stumpage Offsets Under Section 88 of the *Forest Act*;
- Forest Resource Development Agreement;
- Small Business Enterprise Account; and
- Forest Stand Management Fund.

The Ministry Operations Vote, in addition to providing for the administration of silviculture activities, is the primary source of funds for tree nursery and seed operations, and also provides some funding for basic silviculture.

Section 88 stumpage offsets and the Small Business Enterprise Account are the primary sources of funds for basic silviculture. Stumpage offsets under Section 88 of the *Forest Act* are credits against stumpage levies payable to the government by forest companies. Forest companies can

earn credits by undertaking specific activities, such as silviculture, which are approved by the Ministry of Forests and Lands. The Small Business Enterprise Account is credited with bonus bid revenue received from competitive timber sales to small logging companies and the funds are used to finance road construction and silviculture for the Small Business Program.

The primary source of funding for intensive silviculture is the Forest Resource Development Agreement (FRDA), which is a five year, $300 million federal-provincial agreement (1985-1990). This agreement also provides some funding for silviculture research and for evaluation of the activities undertaken through the agreement.

The Forest JobTrac Program, which is funded through the Forest Stand Management Fund, provides for the employment of social assistance recipients in forest improvement projects (primarily silviculture). The Forest JobTrac Program is the major component of the $90 million, three-year Canada-British Columbia Social Assistance Recipient Agreement. The Forest Stand Management Fund also provides for cost sharing with municipalities, forest companies and other sponsors, of forest management activities beyond the levels stipulated in the 1986-1991 Five Year Program.

Overall, funding for silviculture in British Columbia has increased at a rapid rate over the past few years. The 1987/88 budget provides for a further increase of 27.8 per cent ($54.2 million) over the level of expenditure forecast for 1986/87.

Silviculture Funding in British Columbia
1983/84 to 1987/88

	Ministry Operations Vote[1]	Section 88	Small Business Enterprise Account	Forest Resource Development Agreement[2]	Forest Stand Management Fund	Total	Percentage Change
	$ millions						
1983/84	45.9	42.1	—	—	—	88.0	—
1984/85	62.3	48.4	—	—	—	110.7	25.8
1985/86	57.6	50.1	3.3	25.4	—	136.4	23.2
1986/87[3]	61.2	66.6	7.4	44.0	15.5[4]	194.7	42.7
1987/88[5]	63.5	79.5	9.8	76.6	19.5	248.9	27.8

[1] Includes total expenditure under the Canada-British Columbia Intensive Forest Management Agreement (50/50 cost-shared) in 1983/84 and 1984/85.
[2] Includes federal funding under the Agreement.
[3] Forecast.
[4] Includes funding of $3.0 million from the Ministry of Advanced Education and Job Training for the Forest JobTrac Program.
[5] Budget.

In the future, further increases in expenditure on silviculture are likely to be required. To mitigate the impact of these on the provincial treasury, the forest industry may have to assume more responsibility for silviculture activity, possibly in exchange for longer and firmer tenures.

E. Community-Based Economic Development

Introduction

The major objective of the province's economic development strategy is to develop a provincial economy which is internationally competitive. This underlies the emphasis placed in recent years on foreign markets and investment capital to fuel economic growth. The goal of international competitiveness has also resulted in emphasis on capital-intensive projects and in most of the decision-making taking place in centres, such as Vancouver and Victoria, that are often distant from where a development is to take place.

While the provincial government remains committed to the goal of international competitiveness, it also wishes to increase local self-reliance and to mobilize local sources of capital and expertise for small-scale development opportunities that may have been overlooked or ignored. Furthermore, studies have indicated that small business has been and will continue to be the major source of new job creation. Promoting the ethic of self-reliance also goes hand-in-hand with the government's desire to foster and strengthen the entrepreneurial abilities of British Columbians.

A Role for Local Agencies

Individuals actively involved in local economies are usually in the best position to identify potential development opportunities suited to the resources available within a community. They are also better able to identify the critical gaps which must be filled in order to realize an opportunity. To take advantage of these resources, the provincial government wishes to assist local development agencies to:

- identify and pursue local development opportunities; and
- provide or bring to bear the various forms of assistance — from financing to technical services to training — needed to facilitate local small business development.

In Canada, community-based economic development initiatives have had a limited history, with varying degrees of success. The United States and Europe have had more experience with such initiatives and have enjoyed a significant number of successes. In some cases, community-based economic development programs have succeeded in creating permanent jobs at a "public" cost per job considerably lower than that of more traditional programs. Furthermore, there is some evidence to suggest that community-based programs can reduce the rate of small business failures. Obviously, it is important to identify the key features of programs that have been successful in other jurisdictions and incorporate these into programs developed for British Columbia.

In recognition of the potential benefits to be realized from locally administered economic development initiatives, the Ministry of Economic Development's 1987/88 budget provides $3.0 million for pilot initiatives of this nature.

Guidelines for Local Development Agencies

While it is envisaged that local agencies would identify and promote local development opportunities, and provide or coordinate, within a community, a full range of programs to assist small businesses, these agencies should be subject to a set of basic guidelines in order to maximize their effectiveness. These are:

- The agencies should be locally administered.
- Funding for the agencies should be cost-shared between the provincial government and local governments to ensure a local commitment to the initiative. (This may require amendments to the *Municipal Act*.) Cost-sharing with private sector or other local organizations should also be encouraged.
- The agencies should utilize or coordinate existing sources of assistance to the maximum extent possible.
- The provision of assistance should not result in injury to existing businesses within the province. This suggests that the focus should be on import replacement, export expansion or new business opportunities (spin-offs), especially those resulting from large-scale investments within the province.
- The agencies should not be used for inter-community competition to attract businesses.
- The agencies should become self-sustaining over a number of years.

Key Issues to be Resolved

The composition and decision-making process of local development agencies. The appropriate delivery agency must be identified and the delivery process must be defined. In most cases, the community will have an agency which can assume the responsibility. In some cases, the agency may have to be created. In addition, particular attention should be given to the role of local governments.

Degree of provincial government stewardship. While the provincial government is committed to local administration, a mechanism is needed to ensure local compliance with the guidelines.

Link-up with existing programs/need for new initiatives. Federal, provincial and local governments, and private agencies, already have a number of programs to encourage community-based development. At the federal level, for example, there is the Community Futures Program which provides a wide variety of assistance for creating or expanding small businesses.

At the provincial level, various financial assistance programs are in place for encouraging investment. In addition, funding is provided for initiatives, such as Enterprise Centres, through which business training and counselling is provided; for the Provincial-Municipal Partnership in Enterprise Program, which encompasses incentives for local participation in trade missions and market studies; for silviculture on forest land owned

by local governments; and for community improvement projects that will employ income assistance recipients (a new $20 million provincial initiative for 1987/88).

At the local level, funding is provided for Economic Development Commissions, cost-shared with the provincial government, while Chambers of Commerce and the provincial government fund Business Information Centres, primarily to disseminate information on the various sources and type of assistance for small business.

The gaps or deficiencies in this assistance framework should be identified and addressed through the proposed local development agencies.

Guidelines for providing assistance. To ensure that small businesses applying for assistance receive equitable treatment throughout the province and that assisted businesses are likely to succeed, some uniform guidelines are needed.

The mechanism for making local agencies self-sustaining. The first step towards this objective will be the recovery of financial assistance provided to successful ventures. It will also be necessary for local agencies to develop mechanisms for raising or identifying private capital for new ventures. The provincial government is currently exploring a number of mechanisms.

Conclusion

The provincial government is committed to working with communities, and individuals within communities, to pursue opportunities that will diversify and strengthen local economies. To further this objective, municipal leaders, existing local development agencies, small business associations and the public are invited to submit suggestions for resolving the outstanding issues to the Minister of Economic Development.

F. Provincial Government and Crown Corporation Financing

Introduction

The provincial government and its Crown corporations and agencies incur debt to finance government operations and capital projects. Total government debt, including guaranteed debt, is expected to increase in the year ending March 31, 1987 by 8.8 per cent and is forecast to increase by 5.0 per cent in 1987/88.

Net direct and guaranteed debt of the provincial government increased from 24.5 per cent of provincial gross domestic product in 1980 to 32.0 per cent at March 31, 1986. The increase in debt between 1980 and 1986 was incurred mainly to fund capital expenditure by British Columbia Hydro and Power Authority ($3.8 billion), social capital projects such as schools, post-secondary institutions and hospitals ($0.9 billion), capital expenditure by British Columbia Transit ($1.1 billion) and operating deficits of the provincial government ($3.0 billion).

British Columbia government debt compares favourably to that of other provincial governments in Canada. In terms of total net debt in relation to gross domestic product (GDP), British Columbia is below the average for all provinces and, excluding self-supporting debt of public utilities and other commercial Crown corporations, British Columbia net debt in relation to GDP is one of the lowest of all provinces.

At March 31, 1987, net direct and guaranteed debt of the provincial government is expected to total $18.5 billion, for an increase of 8.8 per cent from the previous year. During 1987/88 gross borrowing requirements of the provincial government and provincial Crown corporations and agencies are expected to be $1,959 million, down 2.1 per cent from the estimated $2,001 million borrowed in 1986/87.

After deducting debt repayments of $641 million and sinking fund contributions and earnings of $397 million, the increase in net debt of the provincial government and Crown corporations and agencies is estimated at $921 million or 5.0 per cent for 1987/88. At March 31, 1988, net debt outstanding is expected to total $19.4 billion, equal to 32.4 per cent of gross domestic product, almost unchanged from the ratio at March 31, 1987.

Financing Process

The provincial government issues direct debt for government purposes to finance its operations and meets all costs associated with this debt from the Consolidated Revenue Fund. Direct debt incurred for government purposes is expected to total $4.3 billion at March 31, 1987 and to increase to $5.2 billion by March 31, 1988.

Crown corporations and agencies have employed two methods to borrow funds for capital projects. Under the first method, used exclusively until 1983, the corporation or agency borrows in its own name with a provincial government guarantee of the payment of principal, premium and interest. Net guaranteed debt is expected to total $11.7 billion at March 31, 1987 and to decline to $10.8 billion by March 31, 1988. During 1987/88 debt repayments and increases in sinking fund balances are expected to more than offset new issues of guaranteed debt.

The issuance of new guaranteed debt has been reduced significantly since the amendment in 1983 of the *Financial Administration Act* to authorize the provincial government to undertake direct borrowing for the purpose of relending the proceeds to Crown corporations and agencies. This method of financing, known as fiscal agency borrowing, has been used increasingly in the last four years because relatively small financing requirements of several entities can be consolidated into one debt instrument issued on more favourable terms. Net fiscal agency debt is expected to total $2.5 billion at March 31, 1987 and to increase to $3.5 billion by March 31, 1988.

Regardless of the borrowing method used by Crown corporations financing costs and repayment of borrowings remain the responsibility of the Crown corporation or agency. In certain cases the provincial government provides a contribution to cover all, or a part of, debt service costs.

It is current government policy to require the establishment of sinking funds for all fiscal agency debt with a term of five years or more, in order to provide for orderly repayment of the debt at maturity.

Table F1

Structure of Provincial Government Net Debt

As at March 31	Actual 1986	Revised Forecast 1987	Estimate 1988
		($ millions)	
Direct debt incurred for government purposes	3,197.1	4,337.1	5,162.1
Fiscal agency debt incurred on behalf of Crown corporations	1,824.0	2,488.7	3,466.4
Guaranteed debt	11,975.0	11,657.7	10,775.5
Total	16,996.1	18,483.5	19,404.0
Percentage increase	6.2	8.8	5.0

Composition of 1987/88 Borrowing and Debt

Gross borrowing requirements for provincial government purposes are estimated at $910 million during 1987/88. After deducting debt maturities and increases in sinking fund balances, the net borrowing requirements are $825 million. Debt incurred for government purposes is forecast to reach $5.2 billion, or 27 per cent of total direct and guaranteed debt outstanding at March 31, 1988.

Commercial Crown corporations, which include British Columbia Hydro and Power Authority, British Columbia Petroleum Corporation and British Columbia Railway Company, generate revenue from the sale of services at commercial rates and pay their own operating expenses, including debt service charges. Gross requirements of $512 million for these Crown corporations are expected to be approximately offset by debt maturities and increases in sinking fund balances. As a result, net debt of commercial Crown corporations is expected to remain at approximately $9.4 billion, or 48 per cent of total net debt outstanding at March 31, 1988.

Economic development Crown corporations and agencies include the British Columbia Ferry Corporation, British Columbia Development Corporation, British Columbia Housing and Employment Development Financing Authority, British Columbia Steamship Company (1975) Ltd., British Columbia Place, British Columbia Transit and Expo 86 Corporation. These corporations are generally operated as commercial corporations, but may not necessarily generate sufficient financial return to service their debt. Because these corporations and agencies provide economic benefits to the province, the government provides grants or other forms of assistance. During 1987/88, the gross requirements of economic development Crown corporations are expected to be $286 million. Net debt of economic development Crown corporations and agencies is expected to increase slightly to $2.1 billion or 11 per cent of total net debt outstanding at March 31, 1988.

The remaining Crown corporation and agency debt has been used to fund social and government services capital projects. Financing authorities, which provide funds for the construction of hospitals, schools, and post-secondary education institutions, comprise the largest component in this category. Debt service requirements are met through provincial grants or rental payments and, for schools and hospitals, partly from local levies. During 1987/88 gross requirements of $251 million are expected to be less than debt maturity payments and increases in sinking fund balances. As a result, net debt for social and government services capital projects is expected to fall slightly to $2.8 billion, or 14 per cent of total net debt outstanding at March 31, 1988.

Sources of Funds

Funds borrowed to date have been derived in almost equal proportions from internal and external sources. Internal sources comprise the Canada Pension Plan Investment Fund and provincial Trusteed Funds, while external sources include private institutional lenders and public financial markets.

Borrowings from the Canada Pension Plan Investment Fund have been used mainly to finance social capital projects such as schools and hospitals.

Provincial Trusteed Funds, the second source of internal financing, include the provincial public sector pension funds and the sinking funds of provincial government Crown corporations and agencies.

Most of the externally-provided funds have been obtained through medium and long-term debt issues in public capital markets. Public

issues have been undertaken in Canadian, United States and European markets, in either Canadian or U.S. dollars. To a lesser but nonetheless significant extent, private placements in North America, Europe and Japan have been a source of medium and long-term funds. As in the case of public issues, the ultimate liabilities on all private placements are payable in either Canadian or U.S. dollars.

Short-term debt instruments have also become an important source of funds for both the provincial government and its agencies. A weekly Treasury Bill auction is used for government purposes, and commercial paper has been issued for periods ranging from one day to one year, to provide funds for government purposes and Crown corporations and agencies.

The government raises funds through a variety of debt instruments, depending upon financial market conditions and to meet the objective of minimizing costs, subject to an appropriate portfolio mix. The terms of the instruments are selected to match the expected life of assets acquired with the proceeds of the issue, to meet future repayment schedules for existing debt, and to ensure that risks associated with interest rate fluctuations are limited as far as possible.

Conclusion

During the early 1980s net direct and guaranteed debt of the provincial government increased at a rapid rate. Since 1984/85 annual gross borrowing requirements have been in the range of $1.7 billion to $2.3 billion. As a result, the growth of total debt has slowed but it has still been growing slightly faster than the provincial economy, resulting in net debt as a proportion of gross domestic product increasing to an estimated 32.5 per cent at March 31, 1987. This ratio is forecast to show almost no change at March 31, 1988.

As a proportion of total net debt outstanding, Crown corporation and agency debt has declined from 98.2 per cent in 1982 to an estimated 76.5 per cent by 1987. Over the same period direct borrowing for government purposes has increased from 1.8 per cent to 23.5 per cent of total net debt outstanding. This growth has occurred as a result of government borrowing to fund annual operating deficits in the $1 billion range.

Table F2

Financing Plan, 1987/88

	Forecast Net Debt Outstanding at March 31, 1987[1]	1987/88 Transactions — New Borrowing[2]	1987/88 Transactions — Less Repayment Provision[3]	Forecast Net Debt Outstanding at March 31, 1988
	($ millions)			
PURPOSES:				
Government	4,337	910	85	5,162
Crown Corporations				
Commercial:				
British Columbia Hydro and Power Authority	9,126	500	548	9,078
British Columbia Petroleum Corporation	30	—	—	30
British Columbia Railway Company	298	12	—	310
	9,454	512	548	9,418
Economic Development:				
British Columbia Development Corporation	312	135	41	406
British Columbia Ferry Corporation	94	15	6	103
British Columbia Housing and Employment Development Financing Authority	33	—	—	33
British Columbia Steamship Company (1975) Ltd.	6	1	—	7
British Columbia Place	194	33	2	225
British Columbia Transit	1,076	74	9	1,141
Expo 86	52	(52)	—	—
Other[4]	97	80	15	162
	1,864	286	73	2,077
Social and Government Services:				
British Columbia Assessment Authority	4	—	—	4
British Columbia Buildings Corporation	617	119	168	568
British Columbia Educational Institutions Capital Financing Authority	410	12	16	406
British Columbia Regional Hospital Districts Financing Authority	747	70	57	760
British Columbia School Districts Capital Financing Authority	930	45	87	888
British Columbia Systems Corporation	49	4	1	52
School Districts, Colleges and Universities	99	—	1	98
Other[5]	35	1	2	34
	2,891	251	332	2,810
Crown Corporation Total	14,209	1,049	953	14,305
Less: Amounts held by General and Special Funds	63	—	—	63
Crown Corporation Total	14,146	1,049	953	14,242
DIRECT AND CROWN CORPORATION DEBT TOTAL	18,483	1,959	1,038	19,404
SOURCES:				
Canada Pension Plan Investment Fund	4,414	395	125	4,684
Trusteed Funds	3,906			
Treasury Bills	650	1,564	840	17,020
Private Issues	2,258			
Public Issues	9,482			
Total Before Sinking Funds	20,710	1,959	965	21,704
Sinking Funds	2,227	—	73	2,300
SOURCES OF FUNDS TOTAL	18,483	1,959	1,038	19,404

[1] Estimated. Fiscal agency debt of the government which has been reloaned to Crown corporations is included with Crown corporation debt.

[2] Gross new long-term borrowing plus net change in short-term debt.

[3] Sinking fund contributions, sinking fund interest earnings and net maturities of long-term debt (after deduction of sinking fund balances for maturing issues).

[4] Includes Greater Vancouver Water District, Greater Vancouver Sewerage and Drainage District, and other agencies.

[5] Includes *Municipal Act* and miscellaneous agencies.

G. Interim Financial Statements

Interim financial statements for the ten-month period from April 1, 1986, to January 31, 1987, have been prepared by the Comptroller General in accordance with the *Financial Administration Act*. The interim financial statements are summarized below.

For the ten months ended January 31, 1987, the deficit on a combined funds basis (Consolidated Revenue Fund) was $908.6 million.

Revenue for the ten months was $7,035.2 million and expenditure was $7,943.8 million.

The major sources of revenue for the ten months were as follows:

- taxation revenue of $4,132.0 million, including $1,855.4 million from personal income tax, $265.7 million from corporation income tax and $1,345.9 million from social service tax;
- natural resource revenue of $511.9 million, including $140.3 million for petroleum and natural gas, $48.3 million for minerals, $112.7 million for forests and $200.0 million for water rentals;
- contributions from government enterprises of $386.3 million, including income of $376.0 million from the Liquor Distribution Branch and a dividend of $10.3 million from the British Columbia Railway Company; and
- contributions from the federal government of $1,540.4 million, including Established Programs Financing contributions of $942.2 million and Canada Assistance Plan contributions of $495.5 million.

The major expenditures for the ten months were for the following ministries:

- Ministry of Health — $2,260.0 million;
- Ministry of Social Services and Housing — $1,253.9 million;
- Ministry of Education — $1,040.5 million;
- Ministry of Transportation and Highways — $890.2 million; and
- Ministry of Advanced Education and Job Training — $539.6 million.

The interim financial statements report actual revenue and expenditure for the first ten months of 1986/87, but do not include a revised forecast for the 1986/87 fiscal year.

The expenditure estimates for 1986/87 shown in the Interim Financial Statements reflect the changes in ministry reponsibilities resulting from the re-organization of government in 1986. In the 1987/88 Estimates the

comparative figures for 1986/87 have been changed again, to reflect further changes in ministry responsibilities effective for 1987/88.

The full year deficit for 1986/87 is now forecast at $1,171.0 million, compared to the budget estimate of $875.0 million. During the year, revenue has been adversely affected by the impact of reduced petroleum prices on provincial fuel tax rates and petroleum and natural gas revenue, the effects of the labour dispute in the forest industry and lower-than-expected income and sales tax revenue. Although expenditure for the first ten months was $141 million below budget this favourable variance is not expected to continue during the last two months of the year. This is due to wage settlements for health care employees, including retroactive provisions, which will result in a significant overexpenditure for the Ministry of Health and to a payment of $75 million from the balance in the Lottery Fund to accelerate the retirement of the Expo 86 debt.

Details of the revised forecast for 1986/87 are presented in the budget tables.

H. Economic and Financial Tables

Table H1
General Economic Indicators

	Unit or Base Period	1983	1984	1985	1986
Demographics:					
Population	June 1	2,820,600	2,857,900	2,884,700	2,905,900
Public school enrollment	September 30	497,312	491,085	486,692	486,221
Labour force	thousands	1,389	1,410	1,431	1,457
Employment	thousands	1,197	1,202	1,228	1,274
Unemployment rate	per cent	13.8	14.7	14.2	12.6
Main Economic Indicators:					
Provincial gross domestic product	$ millions	47,238	49,974	53,122	56,947[1]
Capital investment (new and repair)	$ millions	12,565	12,189	13,564[3]	12,753
Retail sales	$ millions	12,257	13,005	14,304	15,323
Automobile sales	$ millions	759	892	1,096	1,317
Housing starts	dwelling units	22,607	16,169	17,969	20,687
Value of building permits	$ millions	2,238	2,004	2,190	2,047
Incomes:					
Personal income	$ millions	40,523	42,338	44,667[1]	46,453[1]
Wages and salaries	$ millions	23,786	24,375	25,890	26,392
Average weekly earnings	$	423	429	441	444
Prices:					
Consumer price index, Vancouver	1981 = 100	116.6	121.3	125.2	129.3
Commodity price index[2]	1980 = 100	86.3	89.7	84.8	90.1
Financial Indicators:					
Business incorporations	total	13,787	14,052	15,581	17,067
Business bankruptcies	total	1,279	1,477	1,331	1,445
Value of shares traded (Vancouver Stock Exchange)	$ millions	3,963	2,233	2,719	4,485
Personal savings deposits at chartered banks	$ millions	14,412	14,809	16,050	17,300[1]
Sector Indicators:					
Value of manufacturing shipments	$ millions	16,985	17,695	19,062	20,560
Timber scaled	thousand cubic metres	71,443	74,557	76,868	77,503
Lumber production	thousand cubic metres	30,773	30,884	33,044	31,468
Pulp and paper production	thousand tonnes	7,730	7,276	8,349	8,775
Gross value of mineral production	$ millions	2,857	3,355	3,428	3,237
Petroleum and natural gas production	$ millions	899	998	1,050	738
Power generation (net)	million kilowatt hours	47,213	52,369	59,126	50,773
Farm cash receipts	$ millions	904	977	1,011	1,017
Foreign visitor entries	thousands	3,817	3,912	4,165	6,997

[1] Ministry of Finance and Corporate Relations estimate.
[2] The *Economist* index converted to a Canadian dollar basis.
[3] Not comparable with previous years because of changes in Statistics Canada methodology.

Table H2

Comparative Provincial Tax Rates, March 1, 1987

Tax	British** Columbia	Alberta	Saskat-chewan	Manitoba	Ontario	Quebec	New Brunswick	Nova Scotia	Prince Edward Island	New-foundland
Personal income (per cent of basic federal tax)[1]	44	43.5	50	54	50	([2])	58	56.5	52.5	60
Corporation income (per cent of taxable income)										
General rate/m&p*	15	11/5	17	17	15.5/14.5[3]	5.9	15	15	10	16
Small business rate/ m&p*	8[3]	5/0	10/0	10	10[3]	3.22	5	10	10	10
Corporation capital (per cent of taxable paid up capital)										
Non-financial corporations	0.2[4]	*Nil*	0.5	0.3	0.3	0.48	*Nil*	*Nil*	*Nil*	*Nil*
Trust companies	0.6[4]	*Nil*	1.2	0.9	0.6	0.9	*Nil*	1.5	*Nil*	1.5
Banks	0.8/2.0[4]	*Nil*	3.0	3.0	0.8	0.9	*Nil*	1.5	*Nil*	1.5
Insurance premiums (per cent)[5]	3	2	3	3	3	3	3	3	2	3
Gasoline[6]										
Per cent of retail price	20	*Nil*	*Nil*	N/A	N/A	N/A	20	20	20	22
Cents per litre	6.39	*Nil*	*Nil*	8.9	8.3	13.65	7.7	8.9	9.0	9.8
Diesel fuel[6]										
Per cent of retail price	N/A	*Nil*	*Nil*	N/A	N/A	N/A	23	21	23	26
Cents per litre	6.83	*Nil*	*Nil*	9.2	9.9	12.45	8.2	9.3	10.9	12.1
Retail sales										
General rate (per cent)	7	*Nil*	5	6	7	9	11	10	10	12
Liquor (per cent)[7]	7	*Nil*	10	12	12	9	11	10	37.5	12
Meals (per cent)[8]	7	*Nil*	*Nil*	6	7	10	11	10	10	12
Accommodation (per cent)	7	*Nil*	5	6	5	*Nil*	11	10	10	12
Tobacco (cents per package of 25 cigarettes)[9]	97	37	102	102.5	70.75	113	103	87.5	87.5	119.5

*Manufacturing and processing rate.

**The following major changes were made in the March 19, 1987 budget:

- Effective January 1, 1987, personal income surtaxes will be removed and the tax rate will increase to 51.5 per cent;
- Effective July 1, 1987, the corporation income tax rate for small businesses will increase to 11 per cent;
- Effective March 20, 1987, the gasoline tax on leaded fuels will increase by 2 cents/litre;
- Effective March 20, 1987, the social service tax rate will decrease to 6 per cent and the tax on meals will be eliminated.

Refer to Appendix B for a more detailed description of revenue measures.

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[1] British Columbia has an 8 per cent health care maintenance surtax plus a 10 per cent surtax on provincial tax in excess of $3,500. Saskatchewan has a 12 per cent surtax on provincial tax in excess of $4,000, plus a 1 per cent flat rate surtax on net income. Manitoba has a 20 per cent surtax on provincial tax in excess of $2,600. Ontario has a 3 per cent surtax of basic Ontario income tax exceeding $5,000. Alberta, Saskatchewan, Manitoba and Ontario also reduce provincial tax payable at low income levels through application of tax reduction or tax credit measures.

[2] Quebec levies its own personal income tax (maximum 28 per cent of taxable income) and, therefore, the tax is not presented as a percentage of federal tax.

[3] In British Columbia, a refundable small business employment tax credit equivalent to approximately $300 per employee is payable to corporations for their first two taxation years commencing after March 31, 1985. The Ontario manufacturing and processing rate also applies to taxable income from mining, logging, farming and fishing operations. Most provinces have special provisions for newly incorporated small businesses.

[4] British Columbia corporation capital tax is being phased out over three years (by April 1, 1987) except for large financial institutions.

[5] Tax is payable by the insurer. In British Columbia, Saskatchewan, Manitoba, Ontario, Quebec, New Brunswick and Nova Scotia, life, sickness and accident insurance premiums are taxed at 2 per cent and all other premiums are taxed at 3 per cent. In Newfoundland and Quebec most insurance premiums are also subject to sales tax. Most provinces levy an additional tax of 1 per cent or less on fire insurance premiums to fund the office of the provincial fire commissioner.

[6] Tax rates apply to regular leaded gasoline and to diesel fuel used on highways. In British Columbia, the tax on diesel fuel is equal to the tax on gasoline plus 0.44 cents per litre. Five provinces (British Columbia, New Brunswick, Nova Scotia, Prince Edward Island and Newfoundland) adjust tax rates periodically, depending on fuel price fluctuations.

[7] Liquor served in commercial establishments is taxed at 13.4 per cent in Quebec, and 10 per cent in Ontario. In Prince Edward Island, liquor is taxed under the *Health Tax Act* at 25 per cent and under the *Revenue Tax Act* at 10 per cent.

[8] A basic exemption for low priced meals exists in most provinces. In British Columbia, meals less than $7.00 are exempt from tax.

[9] In British Columbia, the tax on cigarettes is indexed to reflect changes in the retail price. In Quebec and New Brunswick, set rates are applied to a determined retail price. Other provinces tax cigarettes by amounts which cannot be adjusted without legislative amendment. Tobacco products are also subject to retail sales tax in Newfoundland (about 37¢/pack) and Ontario (about 18.5¢/pack).

Table H3

Financial Transactions
Consolidated Revenue Fund

	Actual 1983/84	Actual 1984/85	Actual 1985/86	Revised Forecast 1986/87	Estimate 1987/88
	($ millions)				
Financial Requirements:					
Operating Transactions:					
Revenue	7,344.3	7,789.9	8,179.8	8,578.0	9,370.0
Expenditure	8,356.4	8,783.8	9,146.3	9,749.0	10,220.0
Surplus (Deficit)	(1,012.1)	(993.9)	(966.5)	(1,171.0)	(850.0)
Net Receipts from Financing and Working Capital Transactions and Fiscal Agency Loans	223.6	111.3	105.7	69.0	22.0
Total Direct Financial Requirements	(788.5)	(882.6)	(860.8)	(1,102.0)	(828.0)
Financial Sources:					
Net Direct Borrowing for Government Purposes	713.0	879.8	721.2	1,140.0	825.0
Decrease (Increase) in Cash and Temporary Investments	75.5	2.8	139.6	(38.0)	3.0
Total Direct Financial Sources	788.5	882.6	860.8	1,102.0	828.0
Debt at Year End:					
For Government Purposes	1,596.1	2,475.9	3,197.1	4,337.1	5,162.1
For Crown Corporation Purposes:					
Fiscal Agency Debt	237.8	1,315.8	1,824.0	2,488.7	3,466.4
Guaranteed Debt	12,755.1	12,207.4	11,975.0	11,657.7	10,775.5
Total Crown Corporation Debt at Year End	12,992.9	13,523.2	13,799.0	14,146.4	14,241.9

Table H4

Revenue by Source
Consolidated Revenue Fund

	Actual 1983/84	Actual 1984/85	Actual 1985/86	Revised Forecast 1986/87	Estimate 1987/88	Annual Rate of Growth 1983/84 to 1987/88
	($ millions)					(per cent)
Taxation Revenue:						
Personal income	1,818.8	1,853.3	2,073.1	2,243.0	2,562.0	8.9
Corporation income	309.5	366.2	323.5	260.0	387.0	5.7
Social service	1,201.3	1,331.5	1,451.8	1,580.0	1,393.0	3.8
Fuel	421.1	468.3	420.0	372.0	420.0	(0.1)
Tobacco	138.4	159.3	188.3	214.0	223.0	12.7
Property purchase[1]	20.7	18.2	22.4	25.0	168.0	68.8
Corporation capital	85.8	87.0	94.3	84.0	49.0	(13.1)
Property	36.8	41.0	38.2	38.0	41.0	2.7
Insurance premium	20.9	22.1	25.3	29.0	58.0	29.1
Hotel room	23.2	25.1	27.7	42.0	35.0	10.8
Horse racing	7.7	6.8	7.2	7.0	7.0	(2.4)
Total, taxation revenue	4,084.2	4,378.8	4,671.8	4,894.0	5,343.0	6.9
Natural Resource Revenue:						
Petroleum and natural gas:						
B.C. Petroleum Corporation and natural gas royalties	166.2	140.0	37.3	70.0	62.0	(21.8)
Permits and fees	70.4	97.8	133.6	66.0	67.0	(1.2)
Petroleum royalties	96.7	100.1	102.9	46.0	50.0	(15.2)
Minerals	31.6	54.2	57.2	56.0	40.0	6.1
	364.9	392.1	331.0	238.0	219.0	(12.0)
Forests:						
Logging tax	1.0	4.3	5.1	7.0	7.0	62.7
Timber sales	103.8	97.4	93.4	98.0	73.0	(8.4)
Small business enterprise — bonus bids	—	—	20.5	20.0	21.5	—
Lumber export tax	—	—	—	60.0	350.0	—
Other forests revenue	26.1	25.6	25.2	23.0	22.5	(3.6)
	130.9	127.3	144.2	208.0	474.0	37.9
Water resources	172.0	190.8	213.9	234.0	212.0	5.4
Wildlife Act	10.9	10.7	10.5	11.0	13.0	4.5
Total, natural resource revenue	678.7	720.9	699.6	691.0	918.0	7.8
Other Revenue:						
Sales and services	162.9	183.4	199.4	267.0	287.0	15.2
Motor-vehicle licences and permits	39.8	124.2	116.3	129.0	149.0	39.1
Other licences and permits	43.7	46.4	49.6	52.0	59.0	7.8
Fines and penalties	16.4	16.2	15.1	16.0	24.0	10.0
Interest from investments	77.1	106.3	84.4	57.0	62.0	(5.3)
Miscellaneous	63.0	60.6	50.2	53.0	57.0	(2.5)
Total, other revenue	402.9	537.1	515.0	574.0	638.0	12.2

[1] For comparative purposes, the *ad valorem* portion of land registry fees for 1986/87 and earlier has been reclassified as Property Purchase Tax revenue.

Table H4

Revenue by Source
Consolidated Revenue Fund — *Continued*

	Actual 1983/84	Actual 1984/85	Actual 1985/86	Revised Forecast 1986/87	Estimate 1987/88	Annual Rate of Growth 1983/84 to 1987/88
	($ millions)					(per cent)
Contributions from Government Enterprises:						
Liquor Distribution Branch	351.5	355.9	398.4	426.0	432.0	5.3
Other	—	4.4	—	23.0	20.0	—
Total, contributions from government enterprises	351.5	360.3	398.4	449.0	452.0	6.5
Contributions from Federal Government:						
Established Programs Financing	928.5	1,059.5	1,091.3	1,218.0	1,228.0	7.2
Canada Assistance Plan	543.7	572.9	595.7	603.0	629.0	3.7
Fiscal Stabilization Program	139.0	35.0	—	—	—	—
Other	161.5	123.6	138.6	142.0	162.0	0.1
Total, contributions from federal government	1,772.7	1,791.0	1,825.6	1,963.0	2,019.0	3.3
Non-Recurring Revenue	54.3	1.8	69.4	7.0	—	—
TOTAL REVENUE	7,344.3	7,789.9	8,179.8	8,578.0	9,370.0	6.3

Table H5

Expenditure by Function
Consolidated Revenue Fund

	Actual 1983/84	Actual 1984/85	Actual 1985/86	Revised Forecast 1986/87	Estimate 1987/88	Annual Rate of Growth 1983/84 to 1987/88
	($ millions)					(per cent)
Health	2,525.3[1]	2,506.7	2,587.1	2,813.7	2,918.9	3.7
Social Services	1,416.3	1,484.5	1,526.9	1,567.2	1,663.7	4.1
Education	1,757.0	1,710.9	1,735.2	1,902.4	2,118.7	4.8
Transportation and communications	831.7	765.8	1,081.0	958.1	835.3	0.1
Natural resources, trade and industrial development	542.4	528.5	659.9	627.8	745.6	8.3
Protection of persons and property	414.2	411.3	427.1	473.6	476.5	3.6
Aid to local government	308.9	286.6	297.9	389.0	403.4	6.9
Debt servicing	112.6	274.6	341.9	400.0	530.2	47.3
General government	154.1	169.7	161.3	151.4	167.6	2.1
Housing	80.6	72.9	87.9	94.6	81.4	0.2
Recreational and cultural services	63.5	58.9	67.5	79.6	82.8	6.9
Other	149.8	513.4[2]	172.6	291.6	195.9	6.9
TOTAL EXPENDITURE	8,356.4	8,783.8	9,146.3	9,749.0	10,220.0	5.2

[1] Includes a one time adjustment of $130.1 million for provincial contributions to the Medical Services Plan to reflect the change from a cash to an accrual basis of accounting.

[2] Includes a $430 million payment to the British Columbia Railway Company to provide for the retirement of the historic debt of the Railway.

Table H6

Direct Debt Outstanding for Government Purposes at December 31, 1986[1]

Maturity	Date of Issue	Rate	Series	Amount Outstanding
		(per cent)		($ millions)
DEBT ISSUED FOR GOVERNMENT PURPOSES				
Short-Term Debt				
Treasury Bills				
January to March 1987	October to December 1986	8.22 to 8.42		650.0[2]
Province Short-Term Programs[3]				
Canadian Market				
January 1987	December 1986	8.16		4.9
Total Short-Term Debt				654.9
Long-Term Debt by Maturity[4]				
1987				—
1988				255.2
1989				246.3
1990				600.7
1991 to 1995				1,561.5
1996 to 2000				551.3
2001 to 2005				202.6
2006 to 2010				41.7
2011 to 2015				0.8
Total Long-Term Debt				3,460.1
TOTAL FOR GOVERNMENT PURPOSES				4,115.0[5]

[1] Excludes accrued interest.

[2] Reported at face value.

[3] Reported at maturity value in Canadian dollars.

[4] U.S. dollars are converted at U.S. $1 = C $1.3975.

[5] In addition, there is $2,610.5 million in net outstanding fiscal agency debt on which Crown corporations and agencies are responsible for the debt servicing costs and repayments of principal.

Table H7

Crown Corporation Debt Outstanding at December 31, 1986[1]

	Fiscal[2] Agency	Guaranteed[3]	Total
	($ millions)		
Commercial:			
British Columbia Hydro and Power Authority	761.8	7,643.7	8,405.5
British Columbia Petroleum Corporation	—	30.0	30.0
British Columbia Railway Company	85.0	225.3[4]	310.3
	846.8	7,899.0	8,745.8
Economic Development:			
British Columbia Development Corporation	282.0	65.3	347.3
British Columbia Ferry Corporation	—	91.0[5]	91.0
British Columbia Housing and Employment Development Financing Authority	32.9	1.0	33.9
British Columbia Place	154.6	27.8	182.4
British Columbia Steamship Company (1975) Ltd.	5.9	0.1	6.0
British Columbia Transit	773.0	235.2[6]	1,008.2
Expo 86 Corporation	142.7	—	142.7
Greater Vancouver Sewerage and Drainage District	30.0	0.2	30.2
Greater Vancouver Water District	20.0	9.9	29.9
Other[7]	—	39.7	39.7
	1,441.1	470.2	1,911.3
Social and Government Services:			
British Columbia Buildings Corporation	184.8	420.7	605.5
British Columbia Educational Institutions Capital Financing Authority	25.3	353.0	378.3
British Columbia Regional Hospital Districts Financing Authority	—	669.3	669.3
British Columbia School Districts Capital Financing Authority	—	861.3	861.3
British Columbia Systems Corporation	20.0	23.1	43.1
Certificate of Approval Program	54.2	—	54.2
Colleges and Universities	38.3	3.7	42.0
Other[8]	—	15.2	15.2
	322.6	2,346.3	2,668.9
	2,610.5	10,715.5	13,326.0
Less: Held by the General and Special Fund	—	63.0	63.0
TOTAL CROWN CORPORATION FISCAL AGENCY AND GUARANTEED DEBT	2,610.5	10,652.5	13,263.0

[1] Net of Sinking Funds but excluding accured interest.
[2] Funds borrowed by the government and reloaned to Crown corporations under the authority of the *Financial Administration Act.*
[3] Borrowings for which the principal, premium and interest are guaranteed by the government.
[4] Includes $25.3 million in capital leases and $200 million in first preferred shares.
[5] Includes $42.2 million in debentures and $48.8 million in capital leases.
[6] Includes $52.1 million in debentures and $183.1 million in capital leases.
[7] Includes *Agricultural Credit Act, Farm Product Industry Act,* and other agencies.
[8] Includes *Municipal Act,* Part 25 and miscellaneous agencies.

Table H8

Historical Government and Crown Corporation Net Debt Summary for Years Ending March 31[1]

Year[2]	Commercial	Economic Development	Social and Government Services	Government Purpose	Less: Amounts Held as Investments by General and Special Funds	Total Net Debt	Net Debt as a Per Cent of Gross Domestic Product
	($ millions)						(per cent)
1971	1,807.5	185.9	511.6	—	—	2,505.0	27.5
1972	1,948.1	245.3	547.1	—	—	2,740.5	26.7
1973	2,061.8	298.4	590.0	—	—	2,950.2	25.0
1974	2,227.7	411.4	616.1	—	—	3,255.2	22.2
1975	2,649.9	462.2	690.4	—	—	3,802.5	22.0
1976	3,144.3	619.6	804.5	—	—	4,568.4	24.0
1977	3,787.4	725.6	971.3	261.4	—	5,745.7	25.4
1978	4,464.0	736.8	1,091.7	261.4	—	6,553.9	25.9
1979	4,437.6	723.7	1,249.9	261.4	165.5	6,907.1	24.4
1980	5,661.6	880.8	1,480.2	235.3	205.2	8,052.7	24.5
1981	5,866.5	927.8	1,654.0	209.2	161.0	8,496.5	22.7
1982	7,154.7	1,056.1	2,047.5	183.1	314.9	10,126.5	23.4
1983	7,691.4	1,202.5	2,669.4	883.1	136.4	12,310.0	27.7
1984[3]	8,365.8	1,865.9	2,835.6	1,596.1	74.4	14,589.0	30.9
1985[3]	9,315.2	1,391.8	2,844.8	2,475.9	34.8	15,992.9	32.0
1986[3]	9,176.5	1,876.9	2,784.5	3,197.1	38.9	16,996.1	32.0

[1] Net debt is after deduction of sinking funds.

[2] For the years 1980 to 1986, accrued interest on the guaranteed debt is included and U.S. dollar debt is translated at the prevailing rate of exchange on March 31. For other years, U.S. dollar debt is translated at the rate of U.S. $1 = Cdn. $1 except for British Columbia Hydro and Power Authority debt which for 1978 and 1979 was translated at the exchange rate prevailing on the date the debt was incurred.

[3] Prior to 1985 debt outstanding for British Columbia Railway Company was considered to be economic development debt; for 1985 and later, this debt is considered to be commercial debt.

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